Future Visions for U.S. Trade Policy

Bruce Stokes, Council on Foreign Relations

This volume is the second in a series of Council on Foreign Relations Policy Initiatives designed specifically to encourage debate on crucial topics in U.S. foreign policy. The substance of the volume benefited from the comments of several analysts and many contributors, but responsibility for the final text remains with the project director.

CONTENTS

Foreword

Acknowledgments

Memorandum to the President from the National Economic Council

Memo One: American Trade Leadership and the Global Economic System - C. Fred Bergsten

Memo Two: A Personal Overview of U.S. Trade Policy - William A. Niskanen

Memo Three: Fast Track's Problem--Not the Marketing, the Product - Jeff Faux

Memo Four: Redressing the "Democratic Deficit" in U.S. Trade Policy - Pat Choate

Background Materials

About the Authors

FOREWORD

In 1997, the Council on Foreign Relations launched a series of Council Policy Initiatives (CPI) whose purpose is to encourage interested Americans to debate key international issues.

We do so by :

1. Choosing topics of major importance; this year's topics are trade and defense.

2. Convening a panel of experts to decide on major policy alternatives. These experts prepare easily understandable memorandums on each of the choices.

3. Publishing a volume containing the memorandums and a cover memo as if written by a key presidential adviser.

4. Sponsoring a nationally televised debate from New York or Washington and regional meetings around the country.

The Council takes no institutional position on the CPI subjects. Our aim is simply to make the best case for each of the alternatives.

Special thanks are due to Gary Hufbauer, vice president and Maurice R. Greenberg director of Studies; Bruce Stokes, project director and senior fellow for Economic Studies: Trade; and Eric Drabiuk, research associate.

We are delighted to continue our Council Policy Initiatives program with this trade project. As good as it is, we hope to do even better as we go along.

Leslie H. Gelb President

ACKNOWLEDGMENTS

All publications projects have multiple parents, but Leslie H. Gelb, the president of the Council on Foreign Relations, was truly both the intellectual godfather and the driving force behind this trade policy review. It was his inspiration and persistence that guided this project to a successful and timely conclusion. Gary C. Hufbauer, the Council's director of Studies, provided wise counsel and a steady hand in guiding this project to fruition.

The contributors to this volume--C. Fred Bergsten, William Niskanen, Jeff Faux, and Pat Choate--deserve special thanks for their willingness to look beyond the current trade battles and to sketch out new visions for American trade policy in the future.

The project benefited greatly from two trade debates: one at a meeting of Council members in Washington, D.C., where the speakers were Assistant Secretary of State Stuart Eizenstat and Pat Choate; and a debate in Atlanta, Georgia, between Choate and William Niskanen. These debates both clarified the issues laid out in this book and road tested some of the concepts. These debates would never have been possible without the efforts of Council Vice President Karen Sughrue and Council staff members David Bloom, Erika Burk, and Irina Faskianos; Robert Hawkins, dean of the Ivan Allen College of Management Policy and International Affairs; and William Long, acting chair of the Sam Nunn School of International Affairs at the Georgia Institute of Technology. Council publisher David Kellogg and his crack editorial staff of Patricia Dorff and Sarah Thomas coordinated an impossible production schedule with their usual aplomb. Michael Weber and Traci Nagle both edited the manuscript on a tight deadline with an artist's flair. Finally, Eric Drabiuk worked closely with the authors, researched last-minute details, and helped pull the whole project together. Without him, we all would have been lost.

Bruce Stokes Senior Fellow for Economic Studies: Trade

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MEMORANDUM TO THE PRESIDENT

FROM: "The National Economic Council"

SUBJECT: Trade Strategy Options for the 21st Century

Congressional refusal to grant you the negotiating authority available to every president since Gerald Ford--one that commits Congress to a simple up or down vote on all trade agreements--could impose significant economic costs on the United States if it slows

trade liberalization (see attached memo by William Niskanen, chairman of the Cato Institute) and could undermine U.S. leadership of global trade policy (see attached memo by C. Fred Bergsten, director of the Institute for International Economics). This is happening at a time when the Asian financial crisis will drive up the U.S. trade deficit with Asia, fanning the flames of protectionism. But congressional opposition to "fast track" reflected widespread public concern about the adverse consequences of the globalization of the American economy symbolized by the North American Free Trade Agreement (NAFTA) and the creation of the World Trade Organization (WTO).

Such sentiment on Capitol Hill suggests that "trade policy as usual" is no longer possible. Demands to fix the problems created by globalization before pursuing further trade liberalization are growing (see attached memo by Jeff Faux, president of the Economic Policy Institute). To do so, some critics argue that Congress must exercise greater oversight of trade policy (see attached memo by Pat Choate, the 1996 Reform Party vice-presidential candidate). Attached are four memos written by leading economists with contrasting views on the future direction of U.S. trade policy. Their approaches range across the ideological spectrum and each author has different concerns about the globalization of the American economy.

Niskanen and Bergsten complement each other in arguing for renewed efforts to liberalize trade. Bergsten contends that the Clinton administration should press ahead on trade liberalization, work to rebuild public support for trade, and use that political base to obtain new trade negotiating authority to launch another multilateral round of trade discussions. Niskasen posits that Americans should welcome globalization as a boon both to the U.S. economy and to individual freedoms. Faux, however, wants the administration to slow the rush toward trade liberalization while it funds larger, more effective worker-training programs, reforms the international financial system, and gives greater priority to labor and environmental rights. And Choate, who agrees with much of Faux's critique of past trade policy, argues that Congress should be more directly involved in making trade policy. He wants to treat trade agreements like treaties, which require a two-third vote of the Senate before they go into effect, to ensure broad political support for future trade liberalization.

These memos were not intended as clear-cut policy options. In the real world of trade policy, even contentious protagonists often share many of the same assumptions about the functioning of the market and the inevitability of some degree of globalization. Faux and Choate differ with Niskanen and Bergsten about the pace and direction of trade liberalization, but not about many of the benefits of trade. Similarly, Niskanen and Bergsten support further trade liberalization but differ over the importance of fast track. So these memos are intended to reflect the breadth of views on this terribly important topic without any presumption of being comprehensive.

Using these four memos as a starting point, and drawing on related critiques of current U.S. trade policy, we have distilled three distinct policy options for this administration as we attempt to fashion a trade strategy for the 21st century.

- Provide new leadership on trade policy at home and abroad, spend the political capital to get some modicum of trade-negotiating authority, and then use that authority to forge ahead in pursuit of regional and multilateral trade liberalization because of the many benefits the American people gain from an open economy,

because global trade liberalization will not proceed without U.S. initiative, because at a time of rising trade imbalances there is an urgent need to keep markets open around the world and because open markets foster freedom and prosperity.

• Pause strategically to develop a new national and international consensus on how best to continue expanding trade while doing a better job of dealing with the problems created by globalization. The pause would be used to develop meaningful retraining programs and stronger social safety nets for those displaced by international competition; a strategy for reducing the U.S. trade deficit, which periodically erupts as a political flash point; new disciplines, notably in the global financial system so as to put an end to the repeated cycles of reckless lending and costly bailouts; and new protections for the environment and workers' rights that will reflect the growing public concern for these issues and the political clout of their advocates.

• Engage Congress by accepting that the original fast-track concept (with a passive Congress willing to delegate negotiating authority to the president) is now dead and, accordingly, give Capitol Hill more responsibility for trade policy and thus more accountability for the policy's consequences. With imports and exports affecting the lives of an unprecedented number of voters, Congress is naturally demanding a greater say on trade policy. By treating trade agreements as normal legislation or as treaties that require a two-thirds vote of the Senate, future administrations will be forced to build a public constituency for trade agreements that now is lacking. And since the buck will then stop on Capitol Hill, not just on your desk, Congress may finally adequately fund the worker retraining and other community adjustment programs needed to cushion the "losers" in global competition.

All these choices involve continuing U.S. leadership and support for free trade because the ongoing globalization of the American economy is, for the most part, no longer in dispute. The only real debate is over the pace and nature of that globalization.

These then are the trade choices facing the Clinton administration and the American people as you near the end of your second term in office and the nation faces a new century. The decisions you, Congress, and the voters make will shape the health of the U.S. economy, the well-being of the American people, and the role the United States plays in the world for years to come.

These choices can best be understood within their economic context, against the backdrop of the American public's attitudes toward trade, and in light of the experience gained during last fall's failure of fast track.

THE ECONOMIC CONTEXT

To choose a course for U.S. trade policy through the end of the century, you must first weigh recent trends in the globalization of the American economy, the benefits realized from trade, and the problems created as our nation is rapidly integrated into the global marketplace.

In recent years, our economy has globalized faster than any other major industrial power, which may help to explain both the strengths of the U.S. economy and the problems voters blame on trade. In 1970, for example, U.S. exports and imports accounted for about 11 percent of the U.S. gross domestic product (GDP). By 1994, trade constituted 24 percent of U.S. GDP, an increase of 118 percent. Using the same metric, over the same time period Germany increased its openness by only 24 percent and France by 43 percent, and the openness of the Japanese economy actually shrank by 17 percent. Only China, India, and Mexico have opened their economies more rapidly than has the United States, and they all started with economies that were almost completely sealed off from the world.

This liberalization has made the American economy the most open among the major industrial nations. When the tariff cuts mandated by the Uruguay Round are fully implemented, our import duties will be lower than those in Japan or Europe. Moreover, we have fewer nontariff trade barriers and other restrictions on trade than any of our principal trading partners.

This year, U.S. exports of goods and services reached a record level of $932 billion, up 45 percent since you took office. U.S. imports are also at historic levels, this past year exceeding $1 trillion for the first time ever. As a result, the U.S. goods and services trade deficit, which has been rising since 1992, reached $114 billion in 1997. More important, the merchandise trade deficit--reflecting a growing trade imbalance in politically sensitive industries such as steel, autos, electronics, textiles, and appare--reached $199 billion last year, a new record.

On the bright side, the trade surplus in services--reflecting the growing U.S. competitiveness in banking, consulting, accounting, travel, and education--also reached a new high of $85 billion in 1997. To give you some idea of the growing importance of services to America's position in the world marketplace, in 1987, at the peak of that decade's trade imbalance, the positive balance in services trade offset only 5 percent of the deficit in goods trade. Last year, the positive U.S. balance in services trade offset 43 percent of the deficit on the goods side of the economy.

But the trade picture over the next few years does not look good. Various estimates indicate the deficit could rise by $50 billion to $60 billion in 1998, thanks to the East Asian economic crisis.

The political implications of this rise in the trade imbalance are mixed. In absolute terms, the merchandise deficit has never been higher, a fact critics of your trade policy will be sure to note. And this year the broadest measure of the trade imbalance_the current account deficit_will reach $250 billion, equal to about 3 percent of the economy, roughly the same relative magnitude the deficit reached in 1985 when protectionist pressures began to build on Capitol Hill.

Nevertheless, the political backlash triggered by such deficits may not be as strong this time around. The composition of the imbalance is different today. The portion of the U.S. trade deficit in goods accounted for by the powerful auto industry has declined from 39 percent in 1987 to 34 percent today. In the 1980s, Japan accounted for more than half of the deficit, making it easy for trade hawks to focus their criticism on just one of our trading partners.

Imports flooding in from Japan led to layoffs in the auto, steel, and electronics sectors of the U.S. economy, generating poignant and politically damaging television pictures of shuttered plants and unemployed workers. Now the deficit is spread around among a number of nations, the most prominent being China. And many of the products we import from China are no longer made in the United States, so the jobs that are displaced by those imports are in other parts of Asia, not in our country. Finally, most of the anticipated rise in the trade deficit this year caused by the Asian financial flu will come from a fall-off in U.S. exports to those beleaguered nations, not from a rise in American imports. This is likely to lead to reduced overtime for some workers and create a few layoffs but not generate the widespread plant closings and high political overtones associated with a flood of imports.

The trade deficit is the most visible manifestation of the globalization of the economy and politically the most controversial. But most economists argue that it is largely irrelevant, a reflection of the relative strength of the U.S. economy at a time when most of the rest of the industrial world is growing more slowly. At a time of nearly full employment in the

United States, if the rest of the world wants to sell us more than they buy from us, American consumers will benefit from greater choices and lower prices, and American workers will not suffer.

Moreover, focusing on the trade deficit obscures the many benefits we gain from trade and masks some real underlying economic problems facing our nation. As you have repeated time and again in stump speeches, globalization has been very good for American workers. Over the last decade, jobs supported by exports increased four times faster than overall private-industry job creation. As a result, 12 million Americans now owe their jobs to exports. And export-related employment in the United States accounted for 23 percent of private-industry new job growth in the first half of this decade. Furthermore, being employed by an exporting firm is good for American workers. A recent study found that both production and nonproduction workers received 14.4 percent higher pay at exporting plants than workers employed by similar firms that did not export. As a result, the communities where export workers live are better off. They enjoy growing tax bases and are less likely to face periodic business downturns, falling real estate prices, and cutbacks in community services.

Moreover, trade has benefited American industry. Exposure to the world market is what transformed the U.S. auto industry from an aging dinosaur to an agile competitor. When you first became governor of Arkansas, the Big Three U.S. automakers inefficiently produced lemons. Confronted with competition from well-built, efficiently produced, and thus competitively priced Japanese cars, the Big Three were forced to clean up their act. Detroit cut the number of man-hours needed to build a car from 24.1 in 1989 to 20 in 1994, and it cut design and production time for a new model from 60.9 months in the early 1980s to 51.6 months today. Exposure to the world market has led to similar improvements across a range of industries. Productivity in American plants that export is almost 40 percent higher on average than in plants that produce only for the domestic U.S. market.

Although imports have become a dirty word in recent political debates over trade, trade is good for consumers. Low-priced shirts from the Philippines, toys from China, and other

products from developing countries stretch the buying power of the paychecks of American workers by about 3 percent, according to recent estimates.

And there can be little doubt that the "dream economy" we have experienced in the United States in the last few years--high employment coupled with low inflation--is partially attributable to greater competition in the global marketplace, which has helped to contain inflationary pressures. Of course, as critics of globalization point out, trade is a two-way street, generating both advantages and disadvantages.

Many Americans believe that competition with workers in low-wage countries is the reason that from 1973 to 1995 average wages grew by only about 1 percent per year, compared with 3 percent per year from 1960 to 1973; and that real median cash wages for the American worker have actually declined. They blame trade for widening income inequality. To be sure, overall compensation has risen, but what people count as prosperity is what goes home in their pockets, not their payments for their health insurance and retirement benefits. Contrary to popular opinion, however, recent studies suggest that imports account for only a small portion of wage stagnation and wage inequality. These problems mainly reflect technological change and, to a lesser extent, immigration. If all imports of manufactured goods from developing countries could somehow be halted, the net wage gain for unskilled American workers would be only 1.5 percent, a small benefit indeed. Nevertheless, Americans know that over the last two decades their incomes have not grown as their parents' incomes did two generations ago. They know trade has expanded at the same time, and they assume a causal connection.

There is also widespread worry among voters that imports cost jobs. NAFTA critics argue that the U.S. trade deficit with Mexico in the wake of NAFTA cost more than 200,000 jobs. But in fact trade agreements have little or no effect on the overall level of employment in the country. The most important policy levers on employment are interest rates, and these are set by Alan Greenspan at the Federal Reserve. The number of workers displaced by imports from Canada and Mexico--an estimated 100,000 per year--is dwarfed by the 2.8 million new jobs created each year by the dynamic American economy.

Many Americans worry that imports effectively export low-skilled jobs overseas and force American workers to compete against workers who do not enjoy the same labor standards as those in the United States. It is true that over the last two decades in the United States there has been a sharp decrease in demand for less-educated employees relative to the demand for more-educated workers. But this phenomenon has occurred in every sector of the economy and has little to do with trade. The economy-wide demand for skills has been the major force behind flat and falling wages for less-skilled American workers. This is more than a trade phenomenon. Moreover, efforts to ensure that other countries enforce fair labor standards--such as the labor panel set up under NAFTA--have not had much effect.

But those who do lose their jobs because of trade face hard going. A year after their jobs are permanently eliminated, 20 percent of American manufacturing workers displaced by trade are still out of work. The average duration of unemployment is five months and those who succeed in landing a job take on average a 10 percent pay cut. The federal government does little to help such workers. In 1997, we spent only about $900 per displaced worker to provide them with trade-related adjustment assistance. First-class

training to give them the skills necessary to compete in the global economy might cost 20 times that.

In weighing the pros and cons of globalization, the benefits of trade have outweighed the costs, at least up to this point. But there are politically significant economic downsides to trade that have been ignored for too long. This inattention came back to haunt us in the fast-track debate and could scuttle future efforts at trade liberalization.

PUBLIC OPINION

Contrary to pop characterizations of the American public as protectionist Know-Nothings, the average American voter demonstrates a complex and subtle understanding of the opportunities, the challenges, and the contradictions posed by the rapid globalization of the U.S. economy.

The most important point to understand about public attitudes toward trade is that most people, most of the time, give it little or no thought. Trade consistently ranks at the bottom of lists of public concerns, trailing drugs, crime, immigration, and a range of other issues.

When the public does periodically concern itself with trade, people are profoundly ambivalent. More than half of those surveyed in recent polls think trade deals hurt job creation. Animosity toward trade is only likely to grow as the trade deficit worsens over the next year thanks to the East Asian financial crisis. Nevertheless, people think trade is inevitable, and they hope it will prove beneficial for their children. When asked about trade policy, many of those surveyed are simultaneously willing to restrict trade (to preserve jobs and punish "unfair" traders) and unwilling to restrict trade (to preserve consumer choice and stimulate competition). And despite their concern about trade, a growing portion of the public--57 percent--thinks that America's ability to deal with foreign competition is good or excellent.

It is important to note that attitudes toward trade divide along class, age, and gender lines. Those who see themselves as winners from globalization--people with a higher education, more income, those who live in cities, the young, and men--are more likely to favor trade. Those who see themselves as losers--people with less education and income, those who live in rural areas, older people, and women--tend to fear trade.

This ambivalence suggests that the American public can still be convinced that trade expansion is good for the U.S. economy and that American leadership of international trade liberalization is a good thing. But the depth of opposition to globalization is the cost this nation pays for wage stagnation and income disparity (which have little to do with trade) and trade-related job losses (which, although small compared to total employment, have everything to do with trade). Moreover, the class and generational divide that has emerged in public attitudes toward trade portends serious political problems in our society. High-sounding rhetoric about the glories of trade will not change those attitudes. Opinions based on experience can be changed only by changing people's experiences.

A POSTMORTEM ON FAST TRACK

As we plan our future trade strategy, it is useful to understand what happened last fall when the administration's proposed renewal of fast-track trade negotiating authority was never put to a vote because it lacked majority support in the House of Representatives.

The simple explanation for our setback is that we overestimated congressional and public support for fast track and the globalization it permits, and we underestimated the depth of public concern about the consequences of trade and the congressional alienation from trade policymaking.

Finger pointing is seldom useful, and there is always ample blame to go around. In retrospect, the White House political operation refused to spend any of your political capital to rally public support for fast track, despite your public statement that it was your highest legislative priority. Your complaint at a Florida fund raiser two weeks before fast track failed that the public had yet to focus on the issue can be directly traced to the administration's decision to follow an "inside the Beltway" strategy for fast-track passage.

With your understanding of the global economy, your communication skills, and the trust the American people have in you, a national television address and a series of speeches around the country in support of fast track might have turned the tide. And the White House legislative shop also miscalculated. Having asked fence-sitting Democrats to support most-favored-nation (MFN) trading status for China last June, our lobbyists underestimated congressional resistance to voting in favor of two controversial internationalist issues in the same year.

In addition, the business community never identified immediate economic gains from the passage of fast track this year. As a result, its lobbying effort, although strong, never approached that applied to secure the passage of NAFTA or the creation of the World Trade Organization.

At the same time, organized labor understood public concerns about globalization; forged "strange bedfellow" coalitions with conservative populists like Patrick Buchanan, activists like Ralph Nader, and economic nationalists in the business community; and made defeat of fast track a priority.

With the recent rapid turnover in Congress, more than half of the House of Representatives had never before been asked to vote on fast track. It is little wonder that, jealous of congressional prerogatives and hearing mostly from the opponents of globalization, a majority of Congress was not inclined to give the administration new trade-negotiating authority.

THE OPTIONS

Some free market advocates argue that the United States should simply throw open its markets to global competition, even if other nations continue to keep their markets closed. These economists say that the benefits of such a strategy for U.S. consumers would far outweigh any costs to U.S. industry and workers. But, from a political point of view, such "unilateral disarmament" is a non-starter. The following are the three realistic trade policy options facing the administration and the advantages and disadvantages of each course.

1. Provide New Leadership

- Obtain at least limited trade-negotiating authority;
- Launch a new multilateral round of trade negotiations;
- Redouble efforts to liberalize trade in Asia and Latin America;
- Create a barrier-free transatlantic marketplace;
- Rebuild public support for trade.

Congressional failure to pass fast track has thrown the administration's trade policy on the defensive. If American trade leadership is under siege, the way to break that siege is to seize the initiative with a new, proactive effort to open markets around the world for the benefit of the U.S. economy. Since World War II, the United States has led the fight for global trade liberalization. We have cut our tariffs from Depression-inspired levels of 40 and 50 percent--which effectively blocked all international commerce in many goods--to an average of only 4.7 percent. By organizing the various rounds of multilateral trade negotiations and convincing the participants to make trade concessions, we have opened previously closed markets in Asia, Europe, and Latin America.

We pursued this course for altruistic and self-interested reasons. Expanding world trade--with an open U.S. market as its cornerstone--avoided the "beggar thy neighbor" policies of the 1930s that provided the tinder for war. Economic growth through trade provided the fertile ground for democracies to take root during the Cold War. At the same time, American consumers developed the world's highest standard of living, in part thanks to the choices afforded them by imports. And even the challenge posed to American industry by global competition in the 1970s and 1980s, while traumatic, rejuvenated our competitive spirit and made American companies, almost across the board, the strongest in the world.

This high-minded, yet practical, rationale for an engaged U.S. trade policy remains today. In the aftermath of the East Asian financial crisis, only the U.S. economy is big enough and strong enough to provide the market to help restart the Asian economic engines. And export-led recovery is the only sure way for those nations to avoid descending into domestic chaos and regional fratricide. At the same time, the United States is now enjoying one of the longest peacetime periods of economic expansion on record, with low levels of unemployment and inflation not seen in decades. A continued increase of American exports is crucial to maintaining that economic growth and to sustaining the creation of high-paying jobs. And the competition posed by imports is fundamental to restraining inflation.

To provide new global leadership in trade, the administration first needs to obtain some modicum of trade-negotiating authority. When the president lacks such authority, countries reluctant to open their markets have an excuse not to talk with us. At this point, the nature of that authority--broad or narrow--is not as important as the symbolism of having it. To get fast track, you will have to make the case to the country and spend some political capital. In an election year, it will be difficult but not impossible.

The second element of a global leadership scenario is an American push for a major new round of multilateral trade negotiations. Substantial further progress on global trade liberalization will not be possible without having the negotiating trade-offs--for example,

the ability to swap concessions on maritime services for concessions on agriculture--that are available only when multiple issues are on the table. Moreover, with the recent support of House Minority Leader Richard Gephardt, legislative authority to negotiate in the WTO would not be difficult to attain.

In addition, however, the United States should redouble its efforts to implement the two huge regional free trade agreements launched in 1994: the Free Trade Agreement of the Americas (FTAA) and the Asia-Pacific Economic Cooperation (APEC) forum. Their conversion from political pledges to practical realities would provide huge new reductions of trade barriers. Their realization would also bring irresistible pressure on the European Union (EU) and others to join in a new global trade liberalization initiative to avoid being left in the wake by the economies of the Pacific and the Western Hemisphere. However, because NAFTA has attracted such hostile attention, it will be harder to sell FTAA and APEC to the Congress than the WTO.

Finally, the administration should give serious consideration to new regional trading alignments with the EU--removing all remaining trade barriers that impede creation of a true transatlantic marketplace, at least in trade in services--and free trade ties with Australia, New Zealand, and Singapore.

The United States already has the lowest tariffs and the least nontariff trade barriers of any major industrial nation. Thus, by definition, U.S. advocacy of global trade liberalization means other nations will have to open their markets more than the United States will have to open its economy.

But history teaches us that none of this will happen without U.S. leadership. And failure to lead such regional initiatives risks the emergence of a world of hostile trading blocs. It was the United States that kept the European Union from being an exclusionary trading club, and it was Washington that demanded that trade and investment liberalization in NAFTA exceed WTO standards. Without the United States as the conscience of the world trading system, the EU, MERCOSUR (the South American trade bloc that includes Argentina, Brazil, Parguay, and Uruguay), and the nations of Asia might rapidly turn inward. For the public to support such new U.S. trade leadership, it must be seen to be equitable. As a share of its economy, the United States takes twice as many imports from low-wage nations as does the European Union and 60 percent more than Japan. Any new regional or multilateral trade agreements must ensure that other industrial nations more equally share the burden as well as reap the benefits of greater world trade.

To be credible and effective, a national trade leadership strategy needs broad public support. Future congressional approval of trade negotiating authority--whatever form it takes--and continued public support for the globalization of the U.S. economy will require first going to the American people to build a public consensus on trade. That calls for a joint government-business effort of public education, dialogue, and debate. It necessitates listening as well as preaching because the American people have concerns about trade, and they want them heard. The Business Roundtable has begun a pilot, grass-roots public outreach campaign on trade, working with companies, their workers, and communities to understand better the role trade plays in American life today. The lessons learned from that effort need to be applied more broadly. <P

The first challenge is to overcome public misperceptions about trade and the economy. The average American thinks the number of jobless people in the United States is four times higher than it actually is, and seven in ten Americans believe that there are fewer jobs than there were five years ago. It is little wonder voters worry about the impact of imports on employment.

Similarly, the public harbors widespread anxiety about the security and stability of their jobs and incomes. Statistics show that the average American worker stays at a given job about seven years, much the same as a decade ago. But many Americans have experienced abrupt downsizing by Fortune 500 companies, and this experience creates more anxiety in public perceptions than dry statistics. As you have mentioned repeatedly in speeches, many Americans will change jobs six to eight times in their lifetime. This flexibility is one of the strengths of the American economy. There is nothing the government can or should do about that. But we should also acknowledge that forced job changes are traumatic for individuals, families, and communities. We should seek to reassure people and demonstrate through expanded retraining programs that the government and private industry will help workers through those periods of change.

Finally, for Americans to rally around new U.S. trade leadership, trade policy must appeal to their hearts as well as their minds. If they are going to bear some of the costs of free trade, Americans want to do so for a good cause. For many years, the Cold War helped provide moral justification for an open U.S. market and global trade liberalization. Today, to inspire Americans with a new sense of purpose, our advocacy of further reduction of trade barriers must be linked to the creation of more tolerant, inclusive, and democratic political systems around the world. This will require that the United States no longer tolerate authoritarian regimes simply because their markets are growing. The East Asian financial crisis has taught us that in the long run, corrupt regimes make bad trading partners.

The upside of this strategy of new global trade leadership is both economic and diplomatic.

With the U.S. trade deficit on the rise as the result of falling exports to Asia, each and every foreign trade barrier looms larger on the radar screen. Only an activist U.S. trade policy can minimize those obstacles to maximize U.S. exports at a time of slow growth abroad. And only through a creative pursuit of regional and multilateral trade expansion can the administration create the necessary, if not sufficient, preconditions for continuing the unprecedented U.S. economic revival of the last few years.

Moreover, at a time of growing complaints about American abuse of its hegemonic power, new global trade leadership is an opportunity for the United States to lead when no other government can, in a direction that most nations acknowledge is in their self-interest.

The downside of this trade strategy is largely political. At a time of widespread public skepticism about globalization and trade, redoubling the administration's efforts to liberalize markets could stir up protectionist passions. Exit-polling data show that, in election after election, more voters fear trade than actually vote for protectionist candidates such as Patrick Buchanan and Ross Perot. An inevitable cyclical economic

downturn with rising unemployment that happened to coincide with this ambitious new trade strategy, however, could galvanize that public doubt about trade and finally make trade a decisive political issue that would catapult what Bergsten calls an "antiglobalist" into the White House, with catastrophic effect.

2. A Strategic Pause

- Fund a larger, more effective worker training and retraining program;
- Give priority to labor and environmental rights;
- Reform the international financial system to avoid a repeat of the
- Mexican peso crisis and the recent East Asian financial crisis.
- Remember the old adage: When in a hole, stop digging.

The opposition to fast track, and the criticism of NAFTA and the World Trade Organization that preceded it, was a warning. As Jeff Faux argues in the accompanying speech, the problems encountered by fast track were not a failure of marketing but reflected a flawed product. The public has growing doubts about the benefits and it fears the costs of globalizing the American economy with new trade and investment agreements.

It is time for a strategic pause in trade policy while we tend to the domestic problems aggravated by globalization and rebuild public support for U.S. leadership of market liberalization.

This is not a thinly veiled rationale for protectionism. Opinion polls show that most Americans_as well as most members of Congress, even those who opposed fast track and NAFTA_understand that they must live, work, and compete on a small, increasingly integrated planet. But blindly rushing ahead with globalization unmindful of its attendant adverse consequences risks undermining that base of tacit support.

The first priority during a strategic pause is a larger, more effective worker training and retraining program to prepare a more flexible American workforce to compete in the global economy. By enhancing workers' skills and flexibility, we would not protect them from the vicissitudes of global competition, but we would better enable them to roll with the punches. And such a workforce is more likely to support trade liberalization in the future.

Workers with more skills usually earn higher incomes than workers with less skills. Firms that invest in their workers tend to outlast and outperform firms that do not. By enhancing productivity and labor-market flexibility, training helps keep the American economy as close as possible to full employment and, more generally, will help achieve sustainable improvements in living standards. Finally, effective training programs help ensure that the gains of trade liberalization are shared broadly within the population, which in turn fosters public support for more market opening.

There is a long tradition of providing assistance and training for those workers adversely affected by trade (cynics would say there is a long history of buying off workers). Trade Adjustment Assistance (TAA) was created in 1962 in an attempt to garner labor support for U.S. participation in the Kennedy Round of multilateral trade negotiations. To gain

consent for the Tokyo Round of trade negotiations, Congress liberalized TAA eligibility requirements and enriched the TAA benefit package. And as part of the legislation granting trade-negotiating authority for the Uruguay Round of trade talks, Congress enacted the Economic Dislocation and Worker Adjustment Assistance Act. The United States now operates 163 separate labor adjustment programs, not all trade related, across 15 federal agencies at a cost of more than $20 billion a year.

Some of these programs provide unemployment assistance; others merely provide training. But the consensus is that these efforts are too small, reaching only a small portion of the population in need, and often do not work or are of limited effectiveness.

To correct these problems, the administration needs to launch a comprehensive training initiative that should be part of a system of lifetime learning, tied into the existing educational system, and supported by tax incentives for individual and company-sponsored training that feeds graduates into an improved job placement service. Some of this could be paid for by allowing the unemployed to use part of their unemployment insurance as tuition for training. You should also revive the "play or pay" proposal you popularized in the 1992 election campaign. That proposal would have encouraged private sector_financed training by requiring all companies with at least 50 employees to invest at least 1.5 percent of their payroll in training.

The second priority during the strategic pause should be a new U.S. effort to ensure that labor rights and environmental protection are accorded the same priority in trade negotiations that we have given to investor rights and the protection of intellectual property in the past.

The right of workers to organize labor unions and to bargain collectively is supposedly a universal human right guaranteed by the United Nations. But in many countries it is a hollow promise. Similarly, rapid economic growth spurred by trade liberalization is a boon, but it has also wrecked havoc with the environment, destroying the rain forests of the Amazon and polluting the air in Jakarta. Because of this, the opposition to trade agreements by organized labor and the environmental community in the United States has become a major impediment to congressional approval of fast track and future trade agreements.

Trade policymakers and business leaders have long opposed linking trade with environmental and labor concerns, fearing such linkage would be used as an excuse to distort competition and provide a new rationale for protecting domestic industries. Moreover, it would further complicate the rule-based regime that has effectively governed the international trading system. Nevertheless, the United States was instrumental in getting the new World Trade Organization to focus on environmental concerns and attempted, without success, to launch a WTO working group on labor issues. We should redouble these efforts, with the goal of ensuring that trade-related labor and environmental concerns are central to any new multilateral trade negotiation beginning after the turn of the century.

NAFTA requires imports from NAFTA partners to meet the standards of the importing nation. NAFTA also bans the relaxation of environmental measures to encourage foreign investment. The United States should make every effort to have these principles adopted and enforced by the WTO.

Similarly, NAFTA created labor and environmental dispute settlement panels. They do not work. Business does not take them seriously, and workers and environmentalists usually lose. If organized labor and the environmental community are ever to be convinced that trade can be expanded in a manner that accommodates their concerns, then these dispute panels must be made to work and Washington should require them in other regional and international trade agreements.

Finally, environmental concerns about proposed projects have already held up World Bank loans. The U.S. executive director at the International Monetary Fund (IMF) is also required by law to press the IMF to support labor's rights as a condition for financial assistance. This requirement has largely been ignored, a fact that has complicated the Treasury Department's efforts to get Congress to increase U.S. contributions to the IMF during the East Asian financial crisis. The United States should use its leverage in both institutions to ensure that labor and environmental considerations are accorded the importance they are already given by U.S. taxpayers.

A third priority for a strategic pause should be reform of the international financial system, including an effort to slow volatile short-term capital flows and institute uniform international bankruptcy procedures. The huge increase in the U.S. trade deficit caused by the Asian financial crisis will further undermine public support for globalization, despite the fact that this imbalance has nothing to do with the failure of trade agreements. Similarly, the wide disparity in the American and Japanese savings rates weakens the yen and strengthens the dollar, frequently invalidating market-opening concessions made by Tokyo and worsening the U.S. trade imbalance with Japan.

The United States needs to lead efforts to curb the kinds of reckless international lending and hot money investing that triggered the Asian crisis. Moreover, it needs to work with Japan and others to avoid the emergence of huge macroeconomic imbalances that destabilize exchange rates and undermine the benefits of trade liberalization.

The upside of a strategic pause is both symbolic and real.

Retraining, a new emphasis on labor and environmental rights, and new discipline on the excesses of capitalism will directly address the issues of most concern to the opponents of globalization. Labor and public support for trade in the postwar era was built on a social compact: Government would take care of the problems created by government action in opening the economy to international competition. Many people now believe that compact has been broken. To reestablish trust, the administration needs a program of affirmative action to reestablish some balance in the focus of U.S. trade policy on the needs of both the losers and the winners in globalization.

Even a partial success in these efforts could result in an acceleration of the rise of incomes, a decline in income disparity, and a reining in of the U.S. trade deficit. Such achievements would go a long way toward converting opponents of trade to supporters.

The downside of this approach is both diplomatic and political. Trade wonks make much of the bicycle theory of trade negotiations. Without constant forward progress, trade liberalization could collapse into trade protection. Already the failure of fast track has given the Brazilians and others reason to drag their feet in trade talks. To pause now, to not vigorously pursue further trade liberalization for a period of time, risks all that has been achieved to date: the APEC pledge for free trade by 2020, the FTAA commitment to

finish free trade negotiations by 2005, and the "built-in agenda" of WTO sectoral negotiations. The American economy, business, and workers will pay a huge price for the maintenance of foreign trade barriers beyond those dates. And regaining that momentum could prove extremely difficult.

Moreover, members of the business community vigorously warn that focusing on the concerns of the opponents of globalization is a trap. Trade unions and environmental groups can never be satisfied. Their real goal is to halt globalization, not to fix its deficiencies. By pausing we risk playing into the enemies' hands and alienating our only allies in the fight for free trade.

3. Engage Congress

- Challenge Congress to take greater responsibility for trade;
- Give Congress sign-off power before trade negotiations begin;
- Treat trade agreements like normal legislation or like a treaty;
- Demand that Congress focus trade responsibilities in a single committee in each house.

A "democratic deficit" characterizes the formulation of U.S. trade policy. Congress, which has the constitutional authority to regulate international commerce, has ducked the responsibility. Bold new initiatives to liberalize trade and efforts to fix the problems created by globalization will gain popular support or stand a chance of being enacted into law only if Congress is reengaged in the formulation of U.S. trade policy.

As you know, the Constitution gives Congress final say over international commerce because during the time of the Founding Fathers tariffs were the major source of federal revenue, and Congress held the nation's purse strings. Two centuries later in 1974, tired of being caught in the middle between constituents who favored imports and those who feared them, Congress voluntarily handed over to the executive branch the primary responsibility for trade policy by creating fast track. In 1974, when trade accounted for only 16 percent of GDP, such discretion may have been the better part of valor. Today, with trade accounting for 24 percent of GDP, Congress should no longer be allowed to shirk its responsibilities.

More important, with a third of recent economic growth and a quarter of new job creation related to exports, the lives of too many voters in every congressional district are directly affected by trade policy decisions. The nature of trade deals has changed from simply adjusting tariff rates to negotiating wholesale alterations in U.S. laws because an impediment to trade does not necessarily exist only at the border. NAFTA, for instance, not only changed tariff schedules; it also altered immigration statutes, food and health standard-setting procedures, and trucking regulations, among many other laws.

It is time for Congress to be a player, not a kibitzer, on trade matters. Congressional interest in fast track demonstrates that in a democracy like America, with a globalizing economy, those politicians closest to the electorate will be forced to take an important and growing role in shaping U.S. economic relations with the rest of the world. This is a political inevitability that should not be resisted but shaped.

There are several possible ways to engage Congress better in trade policymaking. Congress could grant the executive branch permanent fast-track trade negotiating authority for any agreement Congress has previously approved. But U.S. trade negotiators could be required to obtain specific congressional approval for all new trade negotiations before they begin. This would require the executive branch to spell out its objectives, timetables, and limitations before the credibility of the nation is on the line.

Another approach might be to treat legislation that implements trade agreements like any other legislation. It would require majority approval and be subject to amendment. Or Congress might wait until it sees a trade agreement before it decides if it will allow amendments, through the process of granting a closed or open rule on the implementing legislation.

In his accompanying memo, Pat Choate argues that trade deals should be treated like treaties. Other U.S. commitments that require "permanent or profound" changes in U.S. law or policy require a two-thirds vote of the Senate. In recent years, these have included the International Telecommunications Agreement (1985), the International Wheat Agreement (1987), and the Berne Copyright Convention (1988). None of these commercially relevant treaties was easy to pass, but the congressional debate associated with their consideration built public understanding of the issue involved and eventually led to congressional support.

In any event, congressional oversight of trade policy must be streamlined. On trade matters Capitol Hill is a warren of competing congressional fiefdoms. Dozens of different committees had jurisdiction over the legislation implementing the results of the Uruguay Round. The legislative conference committee convened to work out the details of the bill involved hundreds of people. Defense policy has never been subjected to such conflicting oversight. Trade policy is likewise too important to allow everyone to have his or her finger in the pie.

In the 1970s, when the congressional budget process became too complicated, the Congressional Budget Office was created to help coordinate congressional oversight of the budget. It now may be time to consider a Congressional Trade Office or a single House and Senate trade committee. Congressional barons will object. But Congress cannot have it both ways, asserting latent authority over trade while continuing to act irresponsibly.

With greater congressional responsibility for trade will come more accountability. In recent years, it has been easy for Congress to ignore the funding needs of retraining programs because trade, which created some of the need for retraining, was an executive branch issue. With Congress more closely identified with trade policy, there will be a greater incentive for Congress to fix the problems caused by trade.

The upside of engaging Congress on trade policy is that it calls Capitol Hill's bluff. Congress rejected fast track, so let Congress take greater responsibility for trade policy in the future. Moreover, congressional involvement will ensure a broader, more sustainable base of public support for whatever trade initiatives the United States chooses to pursue.

The downside of engaging Congress is that trade liberalization could grind to a halt. Opening trade agreements to amendment could lead to hundreds of special interest riders that would turn trade-liberalizing accords into protectionist covenants. Treating trade

deals like treaties--requiring two-thirds consent of the Senate--could mean Congress never approves another trade agreement (dozens of treaties now languish in the Senate for want of sufficient votes). And other nations may simply refuse to negotiate significant trade accords if the United States must constantly come back to the negotiating table to seek approval of changes imposed by Congress.

CONCLUSION

The rejection of fast track was a defeat for the administration and an implicit rejection of the trade-liberalization strategy pursued by the executive branch for the last six decades. Current trade policy is not sustainable politically, and that reflects more than a failure of marketing. Congress and the public have experienced enough of the downsides of globalization--joblessness with inadequate retraining options, persistent trade deficits, and so forth--to realize that American trade policy is broken and needs fixing.

But with every problem there is an opportunity. We now have the chance to recast U.S. trade policy in a manner that better prepares it for the challenges of the 21st century and that puts it on a more sustainable footing with greater public support. We have no choice but to accept that challenge. The future health of the American economy rests on our success.

To do so, the administration needs to consult widely with all the stakeholders in American trade policy--business, labor, consumers, environmentalists, Congress, the general public--set a new course, and then sell that policy to the American people in a series of national speeches and debates, both in person and on television. Only you, Mr. President, can have that dialogue with the American people. And if you do, they will follow your lead.

MEMO ONE: AMERICAN TRADE LEADERSHIP AND THE GLOBAL ECONOMIC SYSTEM

The administration should press ahead on trade liberalization, work to rebuild public support for trade, and use that political base to obtain new trade negotiating authority to launch a new multilateral round of trade negotiations, while redoubling efforts to liberalize trade with Asia and Latin America.

C. FRED BERGSTEN

The future of the world trading system, at least into the early part of the 21st century, is in jeopardy because of the failure of the United States to equip itself with new trade-negotiating authority. Without such authority, the United States will be unable to participate effectively in new trade-liberalization efforts at either the multilateral or regional levels. And Washington will be even less able to provide its traditional leadership in steering the world toward increasingly open markets. Unless the Clinton administration can rally public and congressional support for new trade-negotiating authority, the international trading order will pay a very high price, for four reasons.

First, the United States remains the only plausible leader of far-reaching trade initiatives. As recently as 1993-94, the Clinton administration dramatically demonstrated that traditional American role by galvanizing the final global agreement on the Uruguay Round in the General Agreement on Tariffs and Trade (GATT), concluding the North American Free Trade Agreement (NAFTA), and winning political commitments to achieve free trade in the Western Hemisphere and the Asia-Pacific region. Moreover, using residual negotiating authority that carried over from the Uruguay Round and building on previous domestic legislation, in recent years the administration has added to its list of successes by convincing other nations to complete a worldwide agreement to eliminate tariffs on information technology products in late 1996, to liberalize telecommunications services in early 1997, and to liberalize financial services in late 1997. These accords are the three major global advances in trade liberalization since the end of the Uruguay Round in 1993. No other nation could have achieved so much in so short a period of time. And in the future, no other nation is likely to be able to play the American role. The European Union (EU), the only other potential global trade leader, will simply be too preoccupied with creating a single European currency--the euro--and expanding its membership to include countries in Eastern Europe to provide much leadership in the world of trade any time soon.

Second, if the Clinton administration does not win new negotiating authority in 1998, American presidential politics in the run up to the election in 2000 may make it impossible for the executive branch to gain that authority before 2001 at the earliest. The trade policy credibility of the United States will totally evaporate if it sits on the sidelines for the next four years. And the price to the world trading system would be very high. The United States led the 34 democracies in the Western Hemisphere in creating a Free Trade Area of the Americas (FTAA). The United States turned the Asia-Pacific Economic Cooperation (APEC) forum, whose 18 members comprise half the world economy, into a substantive organization by initiating its annual summit meetings in 1993 and by providing crucial support for its subsequent agreement to achieve "free and open trade and investment in the region" by 2010 (for its industrial country members) and 2020 (for the rest). At APEC's 1997 summit in Vancouver, the United States successfully pushed for an agreement to liberalize nine major sectors of the economy, with a global trade value of $1.5 trillion. Finally, it was the United States that insisted that the World Trade Organization (WTO) agree to resume negotiations on agriculture, services, and other issues of great significance to the U.S. and world economies by 2000. An effective American withdrawal from these trade forums would doom America's own initiatives, threatening a reversal of global momentum and a slide back into widespread protectionism as the bicycle of liberalization comes to a screeching halt.

Third, U.S. leadership has been crucial in assuring the compatibility, indeed the mutually reinforcing support, of regional and global trade liberalization. In recent years, some purists have condemned the United States for supporting regional trade deals, deviating from its traditional exclusive pursuit of multilateral trade agreements. But American strategy has deliberately promoted regional arrangements, starting with its bilateral pact with Canada and extending through NAFTA to the current FTAA and APEC initiatives, both because they promise immediate economic benefits and as leverage to press the more inward-looking EU and others to continue moving ahead on the path toward global liberalization. Now that so many regional trade arrangements are in place or underway, a

U.S. decision to go to the sidelines could throw the whole process into reverse: key regional trading arrangements, such as the EU, MERCOSUR and perhaps a new Asia-only combine, could lose sight of their original global goal, validating the worst nightmares of those who fear that regional trading arrangements foreshadow the onset of a world of hostile trading blocs. Fourth, America's future commitment to trade liberalization could be called into question as a consequence of the failure of the current effort to obtain trade-negotiating authority. The United States is in its seventh year of economic expansion, with unemployment and inflation at their lowest levels in decades. Its chief competitors in Asia, including Japan, are in the midst of severe economic crises, and Europe's economic performance has been sluggish throughout the decade. President Clinton was decisively reelected and enjoys extremely high popularity ratings. If the United States cannot decide to pursue continued trade liberalization now, with a buoyant economy and its competitors on the ropes, when will it be able to do so?

A failure or a severe limitation on the use of any new authority (for example, to negotiate only a bilateral agreement with Chile) would represent a stunning victory for organized labor and others who oppose any further globalization of the American economy.

Moreover, such an effort would undoubtedly be led by Congressman Richard Gephardt, the minority leader of the House of Representatives. Gephardt is a plausible candidate to be the next president of the United States (with support from protectionist Republican supporters of Patrick Buchanan and independent supporters of Ross Perot), if Vice President Albert Gore's troubles continue to grow and jeopardize Gore's nomination in 2000 and if the Republicans remain in disarray and fail to mount a credible candidate that year. The United States has not had an antiglobalist president for a century, but such an outcome is by no means impossible if the present debate misfires.

Would all this be so serious for the rest of the world and thus for American foreign policy? After all, the United States is no longer hegemonic in economic terms. Its share of world economic output has dropped below 20 percent and its trade share is even less. The European Union is larger on both counts, and the creation of the euro will end the dominance of the dollar.

Moreover, globalization has gathered enormous momentum from many quarters. Countries in all parts of the globe are marketizing their economies. The process of "competitive liberalization" is virtually universal. Substantial trade negotiations have been proceeding without the United States. The EU, which brokered an interim financial services agreement in 1995 when America chose to stay out, is expanding its membership and heading toward mostly free trade with its Mediterranean neighbors by 2010, and is pursuing agreements with MERCOSUR and Mexico. Subregional pacts like MERCOSUR and the Association of Southeast Asian Nations (ASEAN) Free Trade Agreement are moving ahead. Canada and Mexico have concluded their own free trade agreements with Chile. There have in fact been 35 trade agreements concluded in the Western Hemisphere in the last five years without the participation of the United States.

All such deals hurt the interests of the United States by creating or threatening discrimination against U.S. companies. This factor counsels a resumption of American activism for purely domestic self-interest. Beyond that, American trade disengagement would puncture, and probably destroy, the prospects for consummating the

extraordinarily promising scenario for world trade that has evolved since the end of the Uruguay Round and has until now been poised to proceed.

That scenario has two related elements. The first is credible implementation of the two huge regional free trade agreements launched in 1994, the FTAA and APEC. Their conversion from political pledges to practical realities would provide huge new reductions of trade barriers. Their realization would also bring irresistible pressure on the EU and others to join in a new global trade liberalization initiative so as to avoid being left in the wake by the economies of the Pacific and the Western Hemisphere, which will all be benefiting from more open markets.

APEC is particularly crucial to this strategy. Its members make up half the world economy, and their 1994 pledge to achieve free trade in the region is thus potentially the most far-reaching economic agreement in history. At the same time, APEC's devotion to "open regionalism" means that it will offer to extend its liberalization to nonmembers as well. The EU has always said that "it will not be left behind if APEC does what it says it will do," as was indeed the case when APEC galvanized the Information Technology Agreement (ITA) in late 1996. APEC thus dramatically magnifies America's own effort to continue reducing global barriers and to make sure that regional liberalization supports the multilateral process.

APEC's impressive success in maintaining the momentum of regional liberalization in the teeth of the Asian financial crisis adds to the importance of continued U.S. support for its efforts. At the Vancouver summit in November 1997, APEC members agreed that the next major step toward achieving their ultimate free trade target would be liberalization in 15 key economic sectors (including automobiles, chemicals, energy goods and services, environmental goods and services, and medical equipment). They further agreed to work out specific plans to reduce barriers in nine of those sectors by the middle of 1998 and to begin implementing those plans in early 1999. The United States needs new authority to participate in the liberalization of a number of these sectors, however, and much or all of the initiative could stall if Washington lacks negotiating authority.

The second element in the promising global scenario for world trade is a major new multilateral trade liberalization effort in the WTO, perhaps the "Millennium Round" called for by Sir Leon Brittan or at least a simultaneous "roundup" of key issues as proposed by my colleague Jeffrey Schott. As in the past, rounds or roundups that include a number of issues and sectors will be needed to meet the diverse interests of the full WTO membership and permit the necessary negotiating trade-offs across topics that are essential to produce far-reaching trade liberalization. It is true that the ITA and the telecommunications and financial services agreements represented victories for a purely sectoral approach to trade negotiations. But the talks on maritime services collapsed, and it is doubtful whether many other sector talks can proceed on their own. Indeed, APEC's agreement to proceed with trade liberalization negotiations simultaneously in 15 sectors recognizes a negotiating reality--the need for trade-offs--and represents a first step toward putting together the next round of negotiations. Such a broader approach will almost certainly be required to provide substantial global progress on trade liberalization.

Once all the regional arrangements are on their way to realization, about two-thirds of world trade will in fact have achieved, or be headed toward, barrier-free status. At that point, the WTO membership will recognize that widespread free trade is a practical

possibility and guide the next multilateral trade round by setting an explicit goal of reaching global free trade--perhaps by 2010 on the APEC model. WTO Director-General Renato Ruggiero, the Canadian and previous British governments, and the declaration of the December 1996 WTO ministerial conference in Singapore have already endorsed variants of that ambitious prospect. But it cannot happen without the endorsement and leadership of the United States.

In addition to achieving the considerable benefits of the future elimination of trade impediments, this scenario would decisively counter the risk that the regional pacts now in existence will become sources of new international conflict. Ruggiero has put it nicely: Regionalism will undoubtedly continue to proliferate; so the issue is whether the groupings go off on their own, with possibly disastrous consequences, or increasingly fuse into a common global context that eventually wipes out their preferential features (while preserving their other virtues). The latter outcome is obviously preferable, but the chances of reaching it would be severely jeopardized by a prolonged period of American inaction.

IMPLICATIONS FOR THE GLOBALIZATION DEBATE

A failure of the "fast-track" effort poses an even broader cost to the world: an enormous boost to the backlash against globalization. Such a backlash is evident almost everywhere, from striking workers in France who blame their woes on imports and immigrants to the complaints of the Malaysian prime minister about international currency speculators who undermine the value of the Malaysian ringgit. There is of course some justice to these complaints: there are losers from globalization, the bargaining power of internationally mobile capital is greatly enhanced vis-...-vis internationally immobile unskilled labor, foreign capital can flee an economy even faster than it comes in. On balance, globalization is clearly good for every country. But many governments have been slow to erect the necessary domestic complements: adequate safety nets, addressing unemployment and financial distress, that could cushion adjustment burdens and worker training that will convert potential losers into winners--notably workers who can take advantage of the better jobs and higher wages that become available because of globalization. Such complements are necessary to sustain political support for globalization.

In this environment, victory for the antiglobalization forces in the United States could have devastating consequences around the world. In many countries, including the former command economies of Eastern Europe and in Latin America and elsewhere, support for liberalization is relatively new and its roots are shallow. In the face of an American rejection of globalization, countries with much higher unemployment rates or with much lower income levels than those in the United States could be forgiven for thinking that they too had a license to retreat from trade liberalization. Defensive, protectionist reactions would surface almost immediately, especially in the Asian and Latin American countries that depend most heavily on the U.S. market (and, in return for access to that market, have been willing to pursue free trade with the United States despite the far larger costs liberalization requires of them). China, Russia, and others could lose interest in further liberalization and in joining the WTO. The broader process of economic reform,

and the impetus it provides to democratization, would be set back. A half-century of global economic opening could stall or even be thrown into reverse.

The Asian financial crisis adds substantially to these risks. One result of the demise of "the Asian economic miracle," at least for a while, is a resurgence of doubts in some quarters in Asia about the merits of the "International Monetary Fund/American/Western model" of open markets and trade liberalization. These doubts have initially focused on possible retreats from integration with the world capital markets, which are blamed by some as the source of the recent crisis, but clearly relate to trade and investment policies as well. China's relative insulation from the worst effects of the crisis--because of the nonconvertibility of its currency and other restrictions on its own globalization--may only encourage others to look more favorably on such alternative strategies.

Any signs of American withdrawal from global cooperation and openness, as would be dramatized by a continued failure to enact fast-track legislation (especially if exacerbated by congressional unwillingness to provide the agreed U.S. share of additional resources for the International Monetary Fund), would greatly encourage a swing toward an inward orientation and antiglobalization in Asia. Such a swing, especially coming in tandem with a sharp increase in the American trade deficit caused by the Asian crisis itself, would then reinforce antiglobalization in the United States. Interaction between these two sources of doubt about international economic integration is thus quite plausible. The broader international credibility of the United States would of course suffer severely from such a course of events, with substantial implications for international politics and even global security. It would be impossible for America to withdraw from such a central component of international affairs--indeed, repudiating initiatives undertaken with great fanfare by its own president and his predecessors--without jolting confidence in U.S. staying power in other dimensions. Doubts about a sustained American presence would become particularly acute in Asia, where security considerations are a central (if largely unspoken) rationale for APEC, and add to future risks in the world's most volatile region. It would be the ultimate irony if "the only remaining superpower" entered the 21st century with a policy of disengagement on the very issues that other countries, with the end of the Cold War, now place at the top of the international agenda.

DOMESTIC AMERICAN CONSIDERATIONS AND THE OUTLOOK

In addition to the global rationale cited above, there is a purely domestic case for congressional passage of new trade-negotiating authority. Export expansion has generated one-third of all U.S. economic growth over the past decade. Export jobs pay 10 to 15 percent more than the average wage, so a further shift of American production into the export sector will help counter the stagnation of income levels that has been the central U.S. economic and social problem for a generation. Global competition has played a major role in checking inflationary pressures and thus enabling the United States to achieve much lower levels of unemployment, without forgoing price stability, than anyone envisaged just a few years ago.

Moreover, the United States has already eliminated most of its own trade barriers, so little in the way of jobs or wages will be lost from further trade agreements, whatever one thinks of their past results. (The remaining barriers, notably high textile and agricultural

tariffs, can be phased out over prolonged periods, as in NAFTA.) By contrast, the huge and rapidly growing nations of Asia and Latin America retain extensive controls on international commerce. Hence any moves toward regional or global free trade will primarily benefit the American economy by providing additional impetus to its exports. But the NAFTA debate in 1993 provides a stern warning. That congressional vote should have been a slam dunk: NAFTA amounted to a mere 4 percent expansion of the American economy by including Mexico, a country that bore virtually all the burdens of trade liberalization. The result, however, was the fiercest battle over trade in the United States since that over the Smoot-Hawley tariff, a battle that was almost lost.

Even more important, a large majority of the American public views NAFTA as a huge loss for the United States (despite the clear facts that it was the peso crisis, which had nothing to do with NAFTA, that caused the sharp deterioration of the U.S. trade balance with Mexico and that NAFTA protected both the United States and Mexico itself against a Mexican protectionist relapse). "NAFTA" has in fact become a dirty word in Washington. Both President Clinton and former senator Robert Dole, who supported the agreement, thus banished trade from the campaign debate (and policy agenda) in 1996. No one in Washington talks any longer of "extending NAFTA" even to Chile, referring instead to "a new free trade agreement" with that country (and perhaps several others), and opponents of additional trade agreements seek to tar the entire process with the NAFTA brush.

One key requirement in the effort to pass fast track will thus be to distance the new negotiating authority from NAFTA, since a referendum on the latter would almost surely lose. Moreover, the vestigial remnants of American protectionism will not yield easily. Textile, apparel, and agricultural interests cling to their remaining pockets of high tariffs. The antidumping procedures and other elements of protectionism in America that cause such consternation around the world are fiercely defended by the industries they protect, their lawyers, and their congressional supporters. The deeper problem is that "NAFTA" and "new trade agreements" represent a proxy for the vast impersonal forces of the contemporary global economy that produce deep anxieties in many Americans, notwithstanding the length and depth of America's current economic expansion. White-collar and professional as well as blue-collar and unskilled workers share these insecurities. The U.S. government has weakened its already porous social safety net--the welfare system and retraining programs--just when increased support is needed to alleviate fears of job displacement. Better education and training are the constructive answers to the problem, but despite valiant efforts on the part of the administration, our educational system is highly decentralized and will take many years to repair, and virtually all the government's training efforts to date have failed miserably.

Nor has the Clinton administration covered itself with glory in articulating and executing a coherent trade policy. After brilliantly implementing and to some extent augmenting the trade strategy inherited from Presidents Reagan and Bush in 1993-94, the Clinton White House's trade policy quickly degenerated into a series of largely unproductive bilateral bashings of America's trading partners. The Clinton administration ran from trade throughout the presidential campaign in 1995-96 and was very slow to relaunch the effort for fast track--giving the opponents a long head start, the same mistake that almost cost it the NAFTA vote in 1993. The administration's trade officials have done the best they

could without new authority in negotiating the recent sectoral pacts, but they have focused on narrow opportunities rather than on pursuing the big picture initiatives (such as going for global free trade in a new "Clinton Round" in the WTO) that have historically captured the public imagination and thus galvanized political support in the United States. The politicians in the White House have strained relations with their strongest trade supporters, the business community, by dithering endlessly with substantively trivial issues like international labor standards, which can provide only the tiniest help for their purported beneficiaries. The Treasury Department has increased the difficulties by promoting an excessively strong dollar that undermines American competitiveness and has already pushed the trade and current account deficits to record levels close to $200 billion. The outcome for American trade policy and America's role as a world trade leader is thus uncertain as well as pivotal. In the end, the United States usually gets things right. But it often delays interminably and makes major and costly mistakes along the way.

The entire world has an enormous stake in this outcome. Other countries should be watching very closely as the drama unfolds. They should be making every effort to support a constructive American engagement in the next phase of global trade liberalization. Other nations should clearly indicate their willingness to proceed in a cooperative manner if the United States is enabled to play its full part, as the APEC countries did in November 1997 when they agreed to eliminate barriers in a number of sectors and thus produced very tangible economic benefits to major American industries. Any other outcome would be enormously costly to the world as a whole as well as to the United States itself.

MEMO TWO: A PERSONAL OVERVIEW OF U.S. TRADE POLICY

The administration should help the public understand that globalization is a boon both to the U.S. economy and to the freedom of the American people.

WILLIAM A. NISKANEN

Over the past 25 years the international trade share of the American economy has roughly doubled, a process that we now call globalization. Americans should welcome this increase in international trade and investment, not fear it. I bring two perspectives about the issues raised by this process_one about freedom and rights and the other about economics.

As much as possible, people ought to be free to make the same type of consensual arrangements across a national border as they are within the jurisdiction of each nation. In general, for example, consumers and producers in a market economy have the right to make most types of transactions without the approval of other people and firms, such as the workers or owners of competing firms, even though the other parties may have an indirect "stakeholder" interest in the transactions in question. A plea by workers at Ford Motor Company for consumers not to buy Chrysler cars, for example, would fall on deaf ears. For the most part, people also have the right to move their labor and capital within a nation without the approval of other interested parties.

All too often, however, domestic producers try to restrict the right of domestic consumers to buy from foreign producers, and domestic consumers try to restrict the right of

domestic producers to sell to foreign consumers. Since producer interests are generally more concentrated than consumer interests and, given the costs of organizing a diffuse group, likely to be more politically influential, most restrictions on international trade are on imports, not exports. For many years, the U.S. government has restricted the import of apparel and sugar; more recently, the U.S. government pressured other governments to impose "voluntary" restraints on the export of automobiles, steel, and machine tools to the United States, measures that were otherwise illegal under U.S. and international trade law. The major exception to the dominance of import restraints is when the government itself is the major domestic consumer; exports of many goods and services important to the military, for example, are subject to specific export controls. The paramount role of producer interests is a simple but nearly sufficient explanation of the distinctive politics of international trade policy, both in the United States and other nations. Most governments restrict trade across their national borders by means and for reasons that we would not, and should not, tolerate on trade within our own national borders.

Our freedom and our rights, in summary, are increased by reducing the policy restrictions on trade across national borders. With Adam Smith, however, I acknowledge that "defense is more important than opulence." For that reason, I support distinctive policies at our national borders based on important national security interests. But the burden of proof should rest on those who would, on other grounds, restrict our right to make consensual arrangements across national borders.

As an economist, my professional perspective also makes little distinction between domestic and international trade. Any consensual transaction, by its nature, is expected to increase the well-being of both parties to the transaction; otherwise, one or both parties would not agree to the transaction. The somewhat less intuitive conclusion by economists is that reducing the barriers to international trade, with only a few exceptions, increases the average income in the affected nations, even if the increased trade indirectly reduces the income of some people. In our stilted jargon, reducing trade barriers can be described as a potential Pareto game, in that the increased benefits to the parties directly involved in trade are larger than the losses to other parties.

One exception to this general conclusion is the rare case when the economies of scale are so strong--as may be the case for such products as supercomputers and wide-bodied commercial aircraft--that the relevant market can support only one or two producers. In that narrow case, the average income in one nation may be increased by measures to assure the survival of a domestic firm but only if the benefits to the surviving firm are larger than the costs of winning the competitive contest. Unfortunately, this theory of "strategic trade" has been misused in the attempt to justify all sorts of interventionist trade policies. One of the major developers of "strategic trade" theory, Paul Krugman, has been sufficiently concerned about some people taking his lectures too seriously that he has taken pains to qualify the empirical relevance of this exception.

ECONOMIC AND POLITICAL EFFECTS

Enough political philosophy and economic theory. Let us now discuss some of the real-world effects of freer international trade and the implications of both theory and experience for American trade policy.

One effect on our economy should be obvious: The incomes of some workers and some investors will decline as a result of increased foreign competition, even if these same people gain as consumers. The most important conclusion is that low-skilled workers in high-wage countries will have trouble in our increasingly global economy. In the United States, this is most likely to be reflected by lower real wages; in Europe, because labor markets are less flexible, this effect is manifested by higher unemployment. Economists are still trying to sort out the relative magnitude of the trade effect on the earnings of low-skilled workers. At most, 10 to 25 percent of the widening wage gap between lower-paid and higher-paid workers in the U.S. labor force over the past two decades seems to be attributable to increased international trade, but the precise magnitude will remain a controversial issue for some time.

Sorting out these issues is an inherently difficult task because a number of other important developments have occurred during the same period in which the trade-affected share of our economy has increased substantially. Most importantly, we seem to be in the early stages of a third industrial revolution, one based on digital technology; this technological revolution has increased the relative demand for skilled workers. In the United States, moreover, the average job-related skills and work attitudes of recent high school graduates seem to have declined, while the immigration rate has increased sharply. Commentators on the left are prone to attribute the lower real wages of low-skilled workers to the decline in union membership, a lower real minimum wage, or tight monetary policy. And, for whatever reasons, the average measured productivity growth in recent decades has been substantially lower than during the first decades after World War II.

Our political system, however, will not wait for economists to sort out these various causes. The lower real wage of low-skilled workers has already affected the politics of trade and immigration, as reflected by the reduction of welfare services available to immigrants and the recent defeat of President Clinton's request for renewed "fast-track" authority. Average voters and the politicians they elect have noted the parallel trends of increased international trade and increased variance of wages and have drawn their own conclusions.

On the other hand, the concern by many noneconomists that increased trade would reduce total employment has proved to be a false alarm. For the United States, increased trade has been consistent with a rapid increase in total employment, the two longest peacetime recoveries on record, and the lowest combination of unemployment and inflation in three decades. Total civilian employment has increased about 200,000 jobs a month since the approval of the North American Free Trade Agreement (NAFTA). That "giant sucking sound" that Reform Party presidential candidate Ross Perot attributed to NAFTA must have been due to a vacuum in his brain cavity.

THE MAJOR PROBLEMS OF U.S. TRADE POLICY

Although our broad economic and trade conditions are favorable, there are several serious problems with U.S. trade policy.

First, I am least concerned about the fast-track issue. The recent defeat of President Clinton's request for the renewal of fast-track authority is an ominous portent of the

reaction of Congress to future trade issues, but the lack of fast-track authority, by itself, does not substantially reduce the opportunity to improve U.S. trade policy. Our government can unilaterally reduce its trade barriers without negotiating with other governments. And many bilateral and some sector-specific agreements can be negotiated without fast-track authority.

The major trade agreement that is blocked by the lack of fast-track authority is the proposed Free Trade Agreement of the Americas (FTAA). Although the FTAA seems like a logical extension of NAFTA, there are strong reasons to oppose this new agreement. Canada and Mexico were our first and third largest trading partners before NAFTA, so there was less reason to worry about the trade diversion_diversion of imports from more efficient suppliers outside the region_that is a bad side effect of regional trade agreements. In fact, NAFTA has contributed to a substantial increase in U.S.-Mexico trade with little apparent trade diversion. By contrast, the United States has surprisingly little current trade with the Latin American countries south of Mexico. For that reason, the FTAA is likely to lead to more trade diversion than increased trade within the hemisphere. And the FTAA, in turn, is more likely to be a stumbling block than a building block to a broader global agreement because the diverted trade would create new interests within the hemisphere that would be threatened by a subsequent initiative toward global free trade.

For the past 12 years, the most distinctive characteristic of U.S. trade policy has been an attempt to open foreign markets by any means short of gunboats. In fact, we came perilously close to using gunboats in late 1997, when the obscure Federal Maritime Commission ordered the Coast Guard to take some Japanese ships in U.S. ports hostage to resolve a long-standing dispute about practices in Japanese ports. The focus of these U.S. trade actions has been on the alleged effects of foreign regulations, market structure, and business practices on the U.S. market share in other nations, whether or not these conditions were a violation of existing trade agreements. The exercise of this authority, under section 301 of the 1974 Trade Act and primarily against Japan, has made many other governments regard the U.S. government as the major bully of world trade. The most significant change in the use of this authority, beginning in 1985, was a shift of focus from redressing unfair trade practices to fostering market-share outcomes that were perceived to be more fair to U.S. exporters. In any event, the rule of law in international trade would be best served by shifting all of these disputes to the World Trade Organization (WTO) for resolution_the route commendably taken by the U.S. trade representative in the dispute between Kodak and Fuji Film, even though the United States lost the case. The decision to rely first and foremost on the WTO in all bilateral trade disputes is a decision that the U.S. government can take as a matter of administrative practice.

For many more years, the most abused section of U.S. trade law has been the rules bearing on "dumping" by foreign firms in the U.S. market. This authority is designed to penalize foreign firms from selling in the American market at a price lower than in their home market or lower than an arbitrary U.S. government estimate of their cost, if such sales are also determined to cause injury to some U.S. industry. In practice, foreign firms have found it difficult to defend themselves against pricing practices that are a regular part of the domestic marketing strategies of many U.S. firms. Sooner or later--consistent

with the national treatment principle--we should "dump" the dumping code and judge both foreign and domestic firms selling in the American market by the same existing U.S. law against predatory pricing. This is a change that the executive branch and Congress can make, with no quid pro quo from foreign countries.

Another type of U.S. trade policy that is subject to considerable abuse is the increasing use of trade sanctions for foreign policy objectives. As of March 1997, there were 61 U.S. trade sanctions against 35 countries with a total population of over two billion people. This total does not include the many trade sanctions approved by selected state legislatures and city councils. I sympathize with the concern of our foreign policy officials for some instrument between "jaw, jaw and war, war" (Winston Churchill's phrase). Trade sanctions, however, are seldom effective unless two conditions apply: First, the sanction should be enforced by almost all the trading partners of the target country. Second, the government of the target country should be moderately responsive to the interests of the population. The first condition has rarely been possible since the end of the Cold War. And the most frequent targets of sanctions are the governments that are least responsive to the interests of the subject population. Even when sanctions are effective in changing the behavior of the target government, they do so by harming many innocent people in the target country, including, importantly, those who are most likely to be sympathetic to the U.S. position on the issue in dispute. For the most part, trade sanctions are part of symbolic politics, an opportunity for politicians to decry some condition without any realistic prospect that the sanction will relieve that condition. Again, reform of these practices is a matter for the president and Congress.

Finally, the major future threat to international trade is the growing pressure for including common rules affecting labor, the environment, and antitrust policy in future trade agreements. Such pressure usually arises from firms and unions in industries and countries subject to relatively high-cost regulation, where the harmonization of such rules would have the effect of raising the costs of their foreign competitors. Although broad harmonization of some rules may be necessary to address problems of worldwide impact, such as global warming may turn out to be, these instances are exceptional. Many governments, however, prefer a cozy cartel among themselves to set the peripheral rules affecting trade and investment in a wide range of circumstances. No one has yet offered a good explanation why competition in the market for goods and services is desirable but competition among government fiscal and regulatory policies is not. At stake in this debate is whether globalization of the economy will lead to global rule making or global competition in rule making. My position on this issue, as you may suspect, is that monopoly government is the more serious threat to our freedom.

CONCLUSION

The increased role of international trade, much like the effects of introducing a major new technology, presents opportunities for many people and problems for some. A confident nation should welcome this change--not passively, but by addressing the conditions that contribute to the selective adverse impacts and by correcting the defects in our current policies. The major problem presented by both globalization and new technology is their impact on the earnings of low-skilled workers; this should lead us to address the performance of our public school system, the school-to-work transition, and

the opportunities for vocational training on the job--rather than close off the opportunities presented by globalization and technology. Since a growing share of the U.S. economy is affected by international trade, it is especially important to address the major faults in our current trade policy. We should also reconsider those fiscal and regulatory policies that increase the relative cost of American firms in the global market--rather than pressure other governments to adopt similar policies.

The global economy presents new opportunities for Americans as consumers, producers, and citizens. Consumers will benefit by new goods and services and more competition in domestic markets. Producers will benefit by the increased opportunities to sell in the global market. And the increased indirect competition among governments will benefit most of us as citizens. In general, the increased opportunity to trade across national borders will increase both our freedom and the economy. In summary, Americans should welcome the globalization of our economy as an opportunity--not fear it as a problem.

MEMO THREE: FAST TRACK'S PROBLEM NOT THE MARKETING, THE PRODUCT

The administration should slow the rush toward trade liberalization while it funds a larger, more effective worker-training program, reforms the international financial system, and gives greater priority to labor and environmental rights.

JEFF FAUX

In the wake of the House of Representatives' failure last fall to pass "fast-track" authority for congressional approval of trade agreements, many Republicans blamed the president for not working hard enough to sell the program. Presidential aides in turn groused that business's lobbying campaign was not as aggressive as labor's. Defending himself, President Clinton complained that it was difficult to educate an ignorant electorate. "The benefits of trade are often not seen as directly tied to trade," he said. "Whenever a plant closes down, generally it's easier to tie it to trade whether trade has anything to do with it or not."

But the defeat of fast track was not primarily a failure of marketing. After all, business outspent labor more than 2 to 1 in the fast-track lobbying campaign, the media was relentlessly pro_fast track, and the president was more than willing to horse-trade for congressional votes. One congressman who was offered several bridges for his district quipped: "All I need now is a river."

The root cause of fast track's defeat lay rather in the flawed product: the rush to globalize the American economy with trade and investment agreements that are increasingly suspect to voters and members of Congress. Working Americans sense that they are being pushed farther and farther out into an open sea of brutal international competition for which they are not prepared--and for which their leaders are providing life jackets only to investors.

A look at the global economic strategy of the last three presidential administrations suggests that Americans' suspicions are justified. The strategy uses governmental authority to protect capital, leaving labor, environmental, and other social concerns to the mercies of the market. President Clinton's rhetoric on this issue notwithstanding, the

strategy is not serious about providing American workers with a means of adjusting to the insecurities that come with the global economy. Finally, the strategy promotes a crisis-management style of international economic governance that is politically unaccountable and increasingly inadequate to the task.

The rejection of fast track was not a rejection of the principle that comparative advantage generates economic benefits. To be sure, some opponents were protectionists, just as some supporters were promoters of sweatshops. But the public opinion polls show that the bulk of Americans, and most members of Congress, understand that they live, and must buy and sell, on a small, increasingly integrated planet.

Rather, the fast-track defeat was a rejection of the more extreme claim embedded in the proposed legislation: the claim that the benefits of expanded trade for the typical American outweigh the costs, no matter how much the specific trade and investment arrangements weaken the bargaining position of the U.S. workforce, undercut environmental and other social protections, and undermine sovereignty. This is a harder case to make, and repeating the teachings of Economics 101 that trade makes all consumers better off at some unspecified future time is not enough to make it. Immediate costs, such as increased insecurity, dislocated communities, and the widening distribution of wealth and power must be paid within a time frame relevant to policymaking. To make a convincing case for putting all trade agreements on a fast track, benefits--short-term or long-term--must be specified, not just assumed. But the economics profession has been far better at assuming vast benefits from expanded trade than it has been at identifying them. As Harvard economist Dani Rodrik, a strong supporter of expanded trade, observed is his recent book, Has Globalization Gone Too Far:

Economics is notoriously bad at quantifying forces that most people believe are quite important. For example, no widely accepted model attributes to postwar trade liberalization more than a very tiny fraction of the increased prosperity of the advanced industrial countries. Yet most economists do believe that expanding trade was very important to this progress.

Until the recent fast-track debate, the last three administrations largely overcame resistance to their global economic strategy by labeling their opponents as isolationists. That argument has now worn thin. The experience of the North American Free Trade Agreement (NAFTA), reinforced by the shock of the Asian crisis a few weeks before the House debate on fast track, raised a number of serious questions--about the way trade and investment work in the real world, about adjustments for "losers," and finally about the stability of the global economy--that the administration and its allies could not adequately address. Until they are addressed, the impasse over Washington's strategy for integrating the United States into the global economy is likely to continue.

NAFTA: INVESTORS FIRST

More than any other single factor, it was the experience of NAFTA that turned the majority of House members against fast track. NAFTA is not primarily a trade agreement to lower tariffs. If it were, it could be written on two pages. Rather, NAFTA is a 1,000-page document aimed primarily at protecting Americans and Canadians who invest in Mexico. It contains detailed provisions for intellectual property rights, the repatriation of

earnings, and the deregulation and privatization of Mexican industry and finance. In contrast, labor and environmental concerns, core elements in any modern national social contract, are relegated to weak language in unenforceable side agreements.

In order to justify such an imbalanced agreement, the administration assured Congress that NAFTA would bring a cornucopia of benefits. It would expand the small U.S. trade surplus with Mexico and thereby create at least 200,000 jobs in the first two years. It would build a huge middle-class market for U.S. goods in Mexico. It would move U.S. workers up the ladder of skill and income, while giving Mexican workers a foothold on the lower rungs. NAFTA, Congress was told, would dramatically slow down Mexican immigration to the United States. It would provide Mexico with an incentive to tackle environmental pollution along the border. Finally, it would ensure honest and competent government in Mexico under the leadership of a reformed PRI, the party that had ruled that nation for 70 years.

Within a year after NAFTA went into effect, the Mexican economy plunged into recession, thanks to a NAFTA-driven overvaluation and then collapse of the peso. This required an emergency bailout loan from the U.S. Treasury. Subsequently, the small U.S. trade surplus with Mexico changed to a large trade deficit, resulting in a loss of over 200,000 U.S. jobs. Wages were pressured downward as employers in the United States used the threat of moving to Mexico to force concessions from American workers. In Mexico, a depression caused two million workers to lose their jobs, and real wages fell by about a third. Illegal immigration rose, as bad times drove more Mexican workers to the maquiladora factories--Mexican factories that import U.S.-made components and ship the finished product exclusively to U.S. markets--on the border and from there over the Rio Grande to the United States. The environmental degradation along the border worsened, and the rising incidence of food and livestock contamination added concerns about threats to America's public health. Throughout the crisis, the government run by Mexican "reformers" was revealed as rife with corruption and incompetence.

To the embarrassing experience of NAFTA, the fast-track supporters had four responses. One was to declare NAFTA a success because Mexico had paid back the U.S. portion of the emergency bailout loan on time. A transparent attempt to change the subject, this was unpersuasive. Indeed, to many in Congress, the bailout validated fears that the U.S. government was now obligated to put a floor under the Mexican financial markets. As one business magazine put it in December 1993: "The most immediate indicator of Mexico's arrival is the virtual elimination of 'country risk' as a factor in considering credit or investment deals in Mexico." Assurances in the fall of 1997 that those markets were now being adequately supervised by the Mexican government lacked credibility in the face of endemic corruption, the breakdown of law and order, and the demonstrated lack of judicial independence in Mexico.

A second argument was that the collapse of the peso and the subsequent recession had nothing to do with NAFTA. Thus, the Clinton administration's 1997 report to Congress on NAFTA cavalierly declares NAFTA a "modest success" because exports to Mexico expanded, ignoring the much greater rise in imports. Mexico's depression is attributed to an exogenous, unrelated decline in the value of the peso, which is never explained, revealing a remarkable lack of curiosity about an event that so dramatically undermined the promises made for the agreement.

In the debate over fast track, supporters were never able to convince most members of Congress that NAFTA was unconnected to the peso collapse. True, the overvalued peso would have fallen even without NAFTA. In the absence of debt relief, Mexico had little option other than to try to export its way out of its huge debt burden. Given that most of Mexico's trade is with the United States, Mexico would have had to start running surpluses with the United States sooner or later. But NAFTA proponents had promised Congress rising U.S. surpluses with Mexico, which cost them credibility three years later. More important, NAFTA aggravated the actual impact of the peso devaluation. It assured that the United States would have to absorb more of Mexico's exports. Moreover the promotion of NAFTA--by the U.S. government to the general public and by financial firms to their clients--generated a huge inflow of short-term portfolio investment that drove the peso even further above its real value, creating and financing the small U.S. trade surplus in the early 1990s, the period leading up to the crisis. In addition, U.S. indulgence permitted the Salinas government to hide the severe deterioration of its financial condition in 1994, so when the bubble finally burst, Mexico had depleted its reserves and its ability to ride out the crisis--hence the need for a bailout.

Third, in an effort to disarm opponents, NAFTA supporters conceded that they may have "oversold" NAFTA, but they countered that the opponents had also oversold the costs--ridiculing Ross Perot's imagery of a "giant sucking sound" caused by jobs leaving the United States for Mexico. No doubt both sides exaggerated, but the problem was not so much hyperbole. It was that the imbalanced NAFTA required a sales campaign that exaggerated NAFTA's benefits to American workers because NAFTA so obviously put the costs of adjustment squarely on their backs.

Finally, NAFTA's supporters argued that it was too early to make a definitive judgment on the agreement's impact and pointed to a recovery of Mexico's economic indicators. This was a reasonable argument, but it also suggested that it would be prudent for the United States to wait a while before rushing to expand the model to the rest of the Western Hemisphere.

NAFTA: LABOR AND THE ENVIRONMENT LAST

Opponents of fast track argued that trade and investment agreements should protect workers as well as investors. It was not, as some have caricatured, a demand that workers in every nation get the equivalent of U.S. minimum wages or occupational safety standards. It was a recognition that ordinary Americans would not gain from expanded trade if the living standards of workers in the economies of its trading partners did not rise with productivity. The experience of the maquiladora factories was a case in point. Maquiladora productivity was often at, or even above, that of counterpart U.S. facilities, but the factories' wages were one-seventh to one-tenth the U.S. level. NAFTA supporters promised that its lower tariffs would cause the maquiladoras to wither away. Three years later, maquiladora jobs had grown by another 60 percent to over 800,000.

In NAFTA, labor and environmental provisions are relegated to nonbinding "side agreements" that provide no common standards or definitions but simply urge each country to enforce its own laws. It sets up a lengthy and cumbersome legal process in which the costs make it prohibitive for the average victim to protect his or her rights.

Even for proven violations of a nation's own laws concerning fundamental labor rights, such as freedom of association and collective bargaining, there is no legal sanction at all, only "consultation" between officials of the countries involved. NAFTA supporters maintained that the "sunshine" of publicity would be enough to deter companies from such violations. In the first three years after NAFTA's creation, only five cases were heard by the trinational committee set up to review complaints, and no employer even deigned to participate in the public hearings.

The side agreements covering environmental standards also were essentially toothless. Moreover, although prohibited by the agreement, Mexico went ahead and weakened certain environmental protections, such as environmental impact statements. Mexican officials openly admitted this was done to attract foreign investment in petrochemicals, refining, fertilizers, and steel.

The experience of NAFTA also undercut the administration's argument that other nations simply would not accept enforceable labor and environmental standards. In exchange for greater access to the American market, U.S. negotiators were able to force Mexico to accept sweeping changes in the rules and laws that govern its domestic economy to protect the interests of U.S. investors.

A year later, the Mexican government's desperate financial condition provided an even greater opportunity to make progress on labor and environmental rights by making such reform one of the conditions for the bailout. Moreover, the 1994 Frank/Sanders Amendment to the Foreign Assistance Act now requires the United States to use its "voice and vote" in international lending institutions, including the International Monetary Fund (IMF), to support labor rights as conditions for international financial assistance. But the amendment was ignored by the U.S. Treasury as irrelevant to its main objective: guaranteeing the assets of the holders of Mexican bonds.

The U.S. Treasury/IMF response to the financial crisis in East Asia, which broke just before the fast-track debate in Congress, further reinforced the impression that globalization policy protects the short-term interests of financiers. Again, the Frank/Sanders Amendment was ignored. Moreover, despite the great differences between the economic conditions in East Asia and Mexico, the U.S. Treasury/IMF conditions were virtually the same: Deregulate financial and labor markets, raise interest rates to defend the currency, and institute a draconian austerity program that would dramatically increase unemployment. Many members of Congress and their constituents understood that it is not the U.S. Treasury or the IMF that is ultimately bailing out these countries. It is the workers in both lending and borrowing nations.

WORKERS ON THEIR OWN

However much one believes that the benefits of an open trading system outweigh its costs, few would argue that it will bring more security to the lives of ordinary working Americans any time in the foreseeable future. As American producers struggle with a more competitive and more rapidly changing market, the old relationship between employers and employees is changing dramatically. The share of the workforce covered by health and pension plans is shrinking, irregular employment is on the rise, and more

and more Americans are aware that their holds on their jobs are tenuous. Federal Reserve Chairman Alan Greenspan reports that despite five years of economic expansion, the share of workers worried that they might lose their jobs rose from 25 percent in 1991 to 46 percent in 1996.

The observation and experience of most working Americans is that people who are laid off because of import competition have not gone up the ladder of income but have gone down--or have dropped off entirely. In fact, as the trade share of the U.S. economy has expanded over the last 20 years and productivity has risen by almost 25 percent, real median wages for American workers have declined. Estimates by conventional economists--for whom free trade is a sacred principle--of the role expanded trade has played as a cause of rising wage inequality range from 10 to 100 percent. A recent book by William Cline of the Institute for International Economics estimates 20 percent. This does not include the effects of increased overseas investment and the downward pressures on wages in domestic firms because of the threat of low-wage competition. Moreover, inasmuch as the conventional economic models can identify only 40 percent of the causes of rising wage inequality, trade represents at least half of the explainable factors.

Between 1979 and 1994, the uninterrupted series of U.S. trade deficits had eliminated 2.4 million jobs in American manufacturing, a primary source of high-wage jobs for the 75 percent of the U.S. workforce without a college education. A year after their jobs were permanently eliminated, 20 percent of American manufacturing workers so displaced were still out of work. The average duration of unemployment is five months, and those who landed a job took an average 10 percent pay cut.

In the globalized economy, job insecurity is a permanent condition. Therefore adjustment will be a constant process. Indeed, the political establishment in Washington forever lectures Americans on the need to continuously improve their skills.

But neither Republicans nor Democrats have given education and training the priority implied by their rhetoric and required by their trade policies. For example, in 1997 the federal government spent about $350 million annually on all trade-related adjustment assistance, about $900 per worker whose job had been eliminated because of the trade deficit. This level of funding provided neither the first-class training necessary for workers to move up the wage ladder nor the income support needed to permit working people to commit themselves to training. Based on the number of jobs lost because of trade since 1979, a minimum annual budget for retraining and worker adjustment assistance would come to about $8 billion--or about $20,000 per worker. It is a measure of how serious the policy establishment is about adjustment that at a time when lawmakers are talking about another tax cut, spending anything remotely like this figure is considered out of the question. President Clinton's 1998 budget proposed spending about $150 million more on trade adjustment assistance, but that is still not nearly enough given the need.

Washington has also not been willing to make the adequate long-term investments in education. In 1996, the General Accounting Office reported that the nation needed another $112 billion to restore public school buildings, repair their roofs, drive the rats out of the basements, and wire the schoolrooms for computers. In his 1997 budget, President Clinton suggested an interest-subsidy program that would generate $5 billion

for this purpose. The Republican Congress resisted. When the final compromises on the budget were negotiated, the amount decided on was zero.

On our current fiscal trajectory, the situation will only get worse. The 1997 budget agreement provides for a nondefense discretionary budget (the source of investment spending) that continues to decline in real terms through 2002. The issue of adjustment goes far beyond the question of training or education. As the long-term obligations between employer and employee fray and snap, American workers are having a harder time maintaining basic protections for their families. For example, at least 42 million Americans have no health insurance coverage and another 30 million have coverage that is so weak as to be virtually useless. These are primarily working people who make up the bulk of those hardest hit by import competition. The administration's latest call for extending access to unsubsidized Medicare to certain laid-off workers age 55 and over would cover at most only 300,000 people.

Thus when it comes to the painful process of adjusting to the insecurities of the global marketplace, the message from the country's leaders to American workers is, You are on your own.

Obviously, not all or even most of America's domestic problems are caused by trade deficits and globalization. But when supporters of fast track insisted that trade is a small part of the problem, they missed the point. It has been part of the problem, and not part of the solution. And why should members of Congress vote to make life worse for their working constituents?

COMPETENCE AND SOVEREIGNTY

The fear of ceding national sovereignty to international institutions has long been associated with conservative Republican opposition to global involvement. The fast-track debate revealed a growing parallel concern among liberal Democrats about the competence and accountability of the ad hoc institutional arrangements that are now being used to manage the global economy.

In his analysis of the events leading to the peso collapse in 1994, the Mexican writer Jorge Caste¤eda commented that U.S. policymakers did not understand his country. Events proved him right. U.S. policymakers did not understand Mexico's politics, which is why they were bamboozled by the Salinas regime. They did not understand the Mexican people, which is why they were surprised by the civil unrest that followed NAFTA. And they did not understand the Mexican economy, which is why they forecast a continuing U.S. trade surplus in the face of a policy that would require Mexico to export its way out of debt.

The financial crisis in Asia three years later seemed to repeat the pattern of misunderstanding on a larger scale. Both the IMF and the U.S. Treasury were caught flat-footed by the sudden turn of the financial tides. Indeed, the IMF in its 1997 annual report publicly praised Asian governments for their economic management. The major global banks, which kept up their high rates of lending to Asian companies, were likewise unaware or unconcerned about the region's growing financial weakness.

The overpromotion of "emerging markets" by the Bush and Clinton administrations encouraged Americans to think of the global financial markets as simply larger versions of the U.S. financial sector. But far from being unrestricted, American money markets are the most efficient money markets in the world, in part because these markets are also the most effectively regulated. Over the last century, the United States has developed institutions--both government and self-regulating--that set limits on behavior and force transparency in money, stock, commodity, and other markets. It was this regulatory base that permitted the U.S. government to intervene relatively swiftly in the U.S. savings and loan crisis of the mid-1980s.

The global financial marketplace has no such safeguards, and, under present conditions, will not develop those safeguards. Thus even Stanley Fischer, the first deputy managing director of the IMF, told the New York Times in December 1997 that his agency--despite its army of a thousand economists--did not have the capacity to monitor the global banking system effectively: "The amount of detailed knowledge it takes to understand a system is beyond the capacity of a single multinational organization to deal with."

As a result, the global financial system is governed by ad hoc crisis management, characterized by high-wire policy acrobatics_late-night phone calls from vacationing U.S. Treasury officials to the world's financial tycoons, Western officials flying to Third World capitals in disguise, Wall Street lectures to recalcitrant politicians in developing nations. The crisis-management style has one big advantage: It avoids the politically difficult questions of accountability and sovereignty. The public learns the downside of integration with the global economy when the crisis hits. But when the world faces a crisis, issues of fairness, economic sustainability, and basic national strategy are brushed aside as secondary to the emergency task at hand: restoring investor confidence. When the crisis is over, the policymakers turn to other issues, and the opportunity for serious public debate is lost--until the next crisis, when the high-wire act must be performed again at still higher levels of risk.

This arrangement is inspiring less and less confidence among politicians and the people who vote for them. Many have concluded that U.S. integration into the world economy should not be accelerated but slowed down until we can agree on national policies that reflect the interests of the majority of Americans and on international institutions that can better manage complex and volatile global economic forces.

WHAT NEXT?

The experience of NAFTA, the persistent U.S. trade deficit, and the current financial crisis have undermined the claim that unregulated trade is a "win-win" proposition. Today, a majority of House Democrats and a substantial minority of Republicans do not believe that the current international trade and investment strategy, reflected in last year's fast-track proposal, is good for the majority of Americans. That this judgment prevailed despite five years of solid job growth and the tightening of labor markets in the months leading to the fast-track showdown shows how deep their skepticism runs.

As a share of its economy, the United States takes twice as many imports from low-wage nations as does the European Union and 60 percent more than Japan. The almost certain deterioration in our merchandise trade position as a result of the crisis in Asia--and the

subsequent slowdown in growth and job loss in 1998--suggests that the road ahead for further opening up the U.S. economy to the global marketplace remains rocky.

A modified version of fast track, limited to Chile and/or specific economic sectors, may or may not pass. But the popular skepticism over globalization and thus the fundamental national impasse will not go away unless those who now control the legislative agenda rethink their strategy. For starters, they might address the following agenda.

First, parity between investor protection and labor and environmental rights. Specifically, this means that such rights must be written into trade agreements and there must be a convincing demonstration that the administration is taking seriously its obligation to use "voice and vote" in international institutions to pursue social goals vigorously.

Second, an enlarged domestic program of human and physical capital investment and an effective social safety net.

Third, a strategy for substantially reducing the 20-year-old trade deficit. The American consumer cannot indefinitely continue to be the engine of the world's economic growth. As a part of such a strategy the United States, which is the most influential voice in the policy chambers of the international institutions, should restrain international financial agencies from encouraging high-savings, low-consumption, export-led growth models of economic development.

Fourth, the development of a competent system of global financial market regulation, including a serious program to slow the excessive and volatile flows of short-term portfolio investment with a transactions tax to finance international stabilization funds.

Until there is a new, credible strategy for developing a global economy that works for all Americans, the answer of the Congress and the public to the question "Is globalization worth it?" will increasingly be "No." And it should be.

MEMO FOUR: REDRESSING THE "DEMOCRATIC DEFICIT" IN U.S. TRADE POLICY

The administration should engage Congress more directly in trade policy by agreeing to treat trade agreements like normal legislation or like a treaty, which would require a two-thirds vote of the Senate.

PAT CHOATE

The failure of the administration to enact "fast-track" legislation in 1997 reflects a "democratic deficit" in the way that the president and Congress negotiate and ratify trade pacts. That failure also reflects a congressional reassertion of its constitutional authority to regulate foreign commerce. Ironically, the way to expand U.S. participation in global trade arrangements is through more rather than less congressional involvement in trade matters. The Constitution points the way: The president should submit trade pacts to Congress as treaties. Serious matters deserve serious treatment. Simply put, until the United States eliminates this democracy deficit, our nation's movement to trade globalization will be impeded, if not stopped.

As the first session of the 105th Congress drew to an end in late October 1997, both President Bill Clinton and Speaker Newt Gingrich knew that they did not have enough

votes in the House to pass their fast-track bill--legislation that would force Congress to ratify trade pacts with an up-or-down vote and no amendments. The president and Speaker had another problem as well--the CEOs of the major U.S. corporations that backed both men wanted a vote on the bill, and they wanted it before Congress went home.

On October 28, 1997, 40 of these CEOs sent an open letter to the president, the Speaker, and Senate leaders demanding that Congress ratify fast track before adjourning. Within 48 hours, the president and Speaker had scheduled a vote for the following Friday, November 7.

The Clinton-Gingrich strategy was simple: They would use a combination of political pressure, pork barrel favors, and campaign contributions to sway undecided House members. Once the House adopted the bill, Senate passage was assured, since most Senators had already openly endorsed the legislation. What followed in the next nine days was an intense, arm-twisting type of lobbying that gives Congress a bad name. The president, for instance, called several House members a half dozen times or more. He sent cabinet officials to members' offices to ask if they wanted anything. One representative said that the administration offered him five bridges for his district, although it has no river. In a rare event, dozens of corporate CEOs walked the halls of Congress seeking votes.

Nevertheless, when Friday, November 7, came, the president and Speaker still lacked enough votes. Instead of accepting defeat, Speaker Gingrich simply rescheduled the vote for Sunday, November 9, giving him and the White House another two days to lobby undecided members. Yet when Congress reconvened early Sunday afternoon, the combined Clinton-Gingrich effort still had not collected the necessary support.

If nothing else, President Clinton and Speaker Gingrich are persistent men. Through Sunday afternoon and on until early Monday morning, they pleaded, threatened, and promised. Yet few members budged. Finally, at 1:15 a.m. Monday morning, the Speaker and president conceded failure and withdrew the fast-track legislation.

Later that day, both men announced that they would reintroduce fast-track legislation when Congress convened in 1998 and fight even harder for its passage. Yet the brave words could not hide both a major political defeat and a historic shift in U.S. trade policy. Indeed, an era had ended. In the 60 years between 1934 and 1994, Congress had routinely granted the executive virtually unlimited trade negotiating authority. Now Congress had refused and by doing so automatically reasserted its constitutional authority to "regulate foreign commerce."

The Usual Excuses

The fast-track legislation had the editorial approval of every major newspaper, the active support of every major business organization, the endorsement of almost every major academic economist, pundit, and dozens of former high-level public figures. Congressional rejection of fast track, therefore, was a stunning action.

In the days following "fast-track Sunday," analysts offered several explanations of what had happened. One is that the Clinton administration waited too long before taking the fast-track proposal to Congress. Yet this explanation ignores the congressional battle earlier in the year over granting most favored nation (MFN) status to China. Early in

1997, many House members, particularly Republicans, told both the administration and their own leadership that they were reluctant to take a stand on two controversial trade votes in the same legislative session. Forcing a vote on fast track before the MFN vote, therefore, could have endangered both. By delaying fast track until after MFN, the administration effectively guaranteed extension of trade and investment opportunities in China, something big business also wanted, but at a price: the potential loss of fast track.

Another explanation for fast track's eventual shortfall is that business advocates provided insufficient support. Yet the Business Roundtable, a lobbying group made up of the nation's 200 largest corporations, alone spent more than $5 million for advocacy ads, many in the districts of vulnerable or undecided House members. These same companies also contributed significant funds to the campaigns of most House members--enough to guarantee sufficient opportunities for those donors to make their case.

Nor was the failure of fast track due to inaction of the president and his administration. The president energetically fought for the bill's passage for weeks, as did the 27 lobbyists on the White House's congressional relations staff. As with the political fight over the North American Free Trade Agreement (NAFTA), the administration also appointed a skilled Washington insider_Jay Berman, who had long and successfully lobbied Congress for the recording industry--to coordinate its campaign. The cabinet heads and their staffs worked hard under Berman's direction. The president even brought U.N. Ambassador Bill Richardson back to Washington to lobby his former House colleagues. If traditional politics could have worked, fast track would have passed. The problem, of course, is that the fast-track advocates faced a very nontraditional situation.

A NEW COALITION

The fast-track battle revealed a major realignment of trade forces in the United States. For illustration purposes, we can define the divide as between "globalists," who support quasi-laissez-faire international trade, and "democratic nationalists," who advocate more national-interest trade policies. The president and vice president, obviously, were the leading globalists in the fast-track fight. As with the 1993 NAFTA debate and the 1994 battle over legislation to ratify the results of the Uruguay Round of multilateral trade agreements, they received the support of most of the American establishment, including big business, the liberal and conservative elite pundits, Speaker Newt Gingrich, roughly two-thirds of the House Republicans, and one-fifth of the House Democrats. In opposition, the democratic nationalists had House Democratic Minority Leader Richard Gephardt, organized labor, several although not all the environmental groups, Ross Perot, the Reform Party, Pat Buchanan, Ralph Nader, Jesse Jackson, approximately one-third of the House Republicans, and 80 percent of the House Democrats. Put into perspective, the match was the political equivalent of the world champion Chicago Bulls playing a pick-up street team.

Yet the street team won, largely because public perceptions about trade have shifted since Congress ratified NAFTA in 1993. Then, most Americans gave President Clinton the benefit of the doubt about NAFTA's merits. Subsequently, most Americans came to view NAFTA as a failure. In turn, trade became viewed as a threat to U.S. jobs and living standards--a perception backed by the real-life experiences of many Americans. In fact,

the nation's persistent and growing net trade deficits are the main drag on the growth of the U.S. gross domestic product (GDP).

What emerged from the fast-track battle is a convergence of disparate forces from the left, right, and middle around "democratic nationalism." Their victory over such powerful foes almost guarantees that the allies in this unusual coalition will work together again, not merely to block the globalist vision of unfettered markets but to enact their own.

That alternative vision, while only partially articulated, includes concepts such as hard reciprocity in trade and investment matters; inclusion of labor, human rights, and environmental standards in trade pacts; and global regulation of transnational corporations.

Ultimately, the most important point about this convergence of forces is not the vision of the coalition that now exists but that the coalition exists at all and that it has demonstrated its political power. All that these forces lack is the political leadership that a president alone provides. Several potential presidential candidates in the year 2000 are already moving to seize leadership of this movement.

RESUMING THE NORMAL CHECKS AND BALANCES

The architects of the U.S. Constitution knew from experience the possible dangers of a strong executive, and they also fully understood the role that trade plays in the life of a nation. After all, trade and tax issues had precipitated the Revolutionary War. When the Constitution was crafted, therefore, the people through their elected Congress were given the authority to raise revenues and regulate trade. Specifically, Article I, Section 8, of the Constitution says, "The Congress shall have power to regulate commerce with foreign nations and among the several states, and with the Indian tribes." The power to "regulate commerce with foreign nations" is a congressional responsibility that has long been jealously guarded. Only in a national emergency has Congress ceded this authority to the executive, and when the emergency ends, the power is always reclaimed.

For more than three generations, U.S. trade and foreign policies have been formulated against the extraordinary circumstances of national emergencies--first the global economic depression, then a world war, and finally the Cold War. The roots of fast track, for instance, are found in the New Deal's efforts to deal with emergency panic conditions of the Great Depression. In 1934, Congress granted the executive advance authority to reduce or increase U.S. tariffs but limited the duration of that transfer to three years and only for agreements that would "be mutually and equally profitable both to our own and other countries" and assure "no sound and important American industry will be injuriously disturbed." Since 1934, Congress has extended this "temporary" authority 16 times, allowing a succession of presidents to confront the exigencies of depression, armed conflicts, and the Cold War.

Nevertheless, the circumstances that occasioned this transfer of constitutional power are long past. So too, the very nature of trade negotiations has changed from simply adjusting tariff rates to making wholesale alterations of domestic U.S. laws because global economic integration now extends beyond the reduction of measures inhibiting trade at the border to include domestic regulations that impede trade. NAFTA, for instance, not

only changed tariff schedules; it also altered immigration statutes, food and health standard-setting procedures, and trucking regulations, among many other laws.

Without a national crisis and in the face of the need for wholesale changes of domestic laws previously untouched by trade negotiations, the normal checks and balances built into the Constitution virtually demand a return of power to the legislative branch. By rejecting the president's fast-track proposal, Congress was reasserting its legislative authority.

This legislative authority should be seen in combination with an equally important constitutional provision that says the president "shall have power by and with the advice and consent of the Senate, to make treaties, provided two-thirds of the Senators present concur." This is a more rigorous ratification standard than fast track, which requires only a simple majority vote in both houses of Congress and shortcuts even the normal legislative procedures by prohibiting amendments, forbidding Senate filibusters, limiting debate, and assuring quick consideration on the floor of both houses. By rejecting fast track, Congress has implicitly decided that in the future it should consider trade pacts either under normal legislative procedures or as treaties. Precedent holds that an international agreement that makes "permanent or profound" changes in U.S. law or policy is to be considered as a treaty.

Most recent international pacts have been treated in this manner, including the Atmospheric Test Ban Treaty (1963), the Nonproliferation Treaty (1969), the Biological Weapons Convention (1974), the International Coffee Agreement (1983), the International Telecommunications Agreement (1985), the International Wheat Agreement (1987), the Berne Copyright Convention (1988), and most recently the Chemical Weapons Treaty. Recent trade pacts such as NAFTA and the General Agreement on Tariffs and Trade (GATT) are exerting as permanent and profound effects on America's society and economy as any of these treaties.

The open debate associated with treaties often builds understanding and support. This happened with the Test Ban Treaty and the Chemical Weapons Treaty. Equally important, any trade pact that involves substantial changes in existing domestic laws or puts at risk U.S. workers, industries, or communities--as trade agreements do--merits the public attention and debate generally associated with the ratification of important treaties. Such debate is useful, for it forces advocates of globalization to deal with the consequences of their policies--namely, worker and community dislocations and structural trade deficits.

Advocates of enhanced executive power via fast track have long argued that other countries will refuse to enter negotiations if Congress can amend or ratify any portion of the pact. Yet the Clinton administration has negotiated 200 trade pacts since January 1993 that were not subject to fast-track congressional ratification procedures, including the aluminum agreement. Since 1995, the administration has also negotiated the Multilateral Agreement on Investment (MAI) without any fast-track authority. In the mid-1980s, moreover, negotiations on the Uruguay Round of multilateral trade negotiation were begun without fast-track authority. As these examples demonstrate, the president has the constitutional authority to negotiate trade pacts, and other nations will negotiate absent fast-track legislative procedures. Ultimately, the issue surrounding fast track is whether the members of Congress will agree virtually to pre-approve a trade pact

negotiated by the president. In the past, they did. On "fast-track Sunday," the House of Representatives refused.

WHAT'S NEXT?

For more than 60 years, the United States has led the world in shaping global trade policy. Quite literally, ours is the only nation both equipped and willing to accept that role, at least now and in the near future. The United States, moreover, will want to exercise a leadership role to capture the many global opportunities that exist to create wealth and jobs. The House's rejection of an omnibus fast-track bill, therefore, creates a rare opportunity for the nation to reappraise its trade goals, policies, and procedures. A starting point is to examine the basic goal of our trade policy. Is its prime mission, for instance, to help U.S.-headquartered firms expand their global market presence and improve their financial performance? Is the goal to improve the jobs, wages, benefits, and living standards of American citizens? Or is the goal to strengthen U.S. geopolitical leadership? Moreover, where do these goals conflict and where do they coincide?

Another question concerns the adequacy of existing trade policymaking processes, procedures, and administrative structures. We staff the Office of the United States Trade Representative, for instance, with fewer than 150 people and a handful of attorneys (staff and consultant) to deal with a host of responsibilities, including negotiations, congressional relations, and enforcement. By contrast, the Department of Defense has almost 1,000 admirals and generals on duty.

What about worker and community adjustment? Expanded trade inevitably means more dislocations of workers. Yet a succession of administrations has dealt with these transitions in a perfunctory manner--providing barely enough resources to give political cover for cooperating members of Congress. Consequently, those programs that do exist are barely a Potemkin village of support.

What about enforcement of existing trade agreements?

Traditionally, administrations focus on negotiating new deals but ignore the enforcement of those on the books. Even the highly visible U.S.-Japan deals concluded over the past three decades are ignored. The point is that in trade matters, enforcement is as crucial as negotiation.

Finally, how will we secure public support for expanded U.S. trade? Elegant lectures on the theory of neoclassical economics are unlikely to be sufficiently persuasive. For most voters, life is reality. In part, this Congress rejected fast track because of the strong pressures brought on it by organized labor and other groups. In larger part, many members of Congress were susceptible to that pressure because most of their constituents believe that trade hurts them and that more trade will hurt them more. Ultimately, we cannot commit the nation to a trade policy until we convince the American people.

CONCLUSION

The House's rejection of fast track is the end of one era, but it also marks the beginning of another. Our opportunity is to use the next year to think about what we want U.S. trade policy to be and then identify what is required to translate that vision into reality.

One thing in this process is sure: If the administration's claim that one-third of all U.S. economic growth and one-quarter of all new U.S. jobs come from exports, then Congress must be more involved with trade policy because trade is vital to its constituents. If this involvement is to be positive, the current "democratic deficit" in trade policymaking must be eliminated. BACKGROUND MATERIALS

Table 1. Nontariff Barriers in Selected Asian Countries

Notes: QR = quantitative restrictions; GP = government procurement; IPR = intellectual property rights; S = some remaining, significant impediments to trade and investment in sectors of interest to U.S.; M = many significant impediments to trade and investment, especially in priority sectors; Blank = few or no barriers.

Sources: U.S. International Trade Commission, USTR National Trade Estimates Report, USTR Special 301, Title VII and Super 301 Reports, 1996, and consultations with USTR negotiators.

-Table 2. WTO Tariff Commitments of Selected Asian Countries and the United States WTO/Uruguay Round Note: n/a = not applicable. Sources: U.S. International Trade Commission and Pacific Economic Cooperation Council (PECC).

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