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## U.S. TRADE POLICY — TIME TO START OVER

Anger over the impact of international trade on jobs, wages, and opportunities was a major cause of Donald Trump's election. As the Democratic Party's politicians and pundits search through the rubble of Hillary Clinton's candidacy for clues to her stunning loss, they need to take an honest look at their own contribution.

Since the signing of the 1994 North American Free Trade Agreement (NAFTA) (conceived by Ronald Reagan, negotiated by George H. W. Bush, and sold to the Congress by Bill Clinton) the Washington policy class has relentlessly pursued ever more so-called free trade agreements. As the Economic Policy Institute has been reporting for decades, these deals have devastated our country's industrial base and the economic security of millions of Americans. Under pressure from multinational corporations, Republican and Democratic leaders have systematically traded away the income and job security of American workers in exchange for promoting the interests of American international investors.

It was only a matter of time before voters in the most affected states rebelled against the elites of both parties. There were enough of them in Michigan, Ohio, Pennsylvania, Wisconsin, and Iowa — many of whom had voted for Obama in the previous election — to carry Trump to the White House.

But the issue remains. Trump has declared the twelve-nation Trans-Pacific Partnership (TPP) dead. Instead, he promises to negotiate "fair bilateral trade deals that bring jobs and industry back onto American shores." We have heard that before. Barack Obama predicted 70,000 new jobs from the *bilateral* U.S. — Korea Free Trade Agreement he signed in 2011. Four years later we had already lost 95,000.<sup>1</sup>

Trump may be, as he boasts, a better negotiator than Barack Obama. He was certainly right in criticizing Obama's deals. But the root cause of the loss of jobs and industry to globalization goes deeper than the trade pacts' details. It is inherent in economic policies that relentlessly open up American workers and their communities to brutal global competition for which they have not been prepared. The result is that the costs to American workers of each cycle of expanded trade relentlessly exceed the benefits. This fundamental problem will not be resolved by better negotiations.

The trade policy of the last quarter century is now bankrupt, economically and politically. This is the moment for America to go back to the drawing board and rethink strategies for competing in the global economy in ways that raise living standards for all.

The first step is to declare a freeze on all trade negotiations — bilateral as well as multilateral — until we have such strategies in place.

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Report By Jeff Faux November 30, 2016.

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### **Bad economics = losing politics**

Donald Trump hammered away at those trade deals and the arrogance of an establishment that cared more about its relationship with Wall Street and foreigners than with Americans whose lives were being wrecked by globalization. He attacked leaders of both parties. But Democratic presidents Bill Clinton and Barack Obama were the most prominent champions of corporate globalization. And because the Democratic Party has traditionally claimed to be the champion of the working class, it was the most vulnerable to feelings of betrayal.

Workers' fear and anger that they were rapidly losing the American Dream were channeled by rightwing propaganda into resentment against immigrants and minorities, and upwardly mobile college-educated women. Many voters became convinced, however incorrectly, that Democrats were increasing benefits and protections to these groups, while pulling the rug out from under industrial workers and their communities, which contain Americans of all races, genders, and social identities.

This impression was reinforced by political consultants and pundits who argued that the party no longer needed that traditional base but could win an electoral college majority on the basis of larger turnouts from a coalition of minorities, immigrants, women, and white male college men. They lost the bet. Hillary Clinton underperformed relative to Obama in 2012 with African Americans, Latinos, and white women. Donald Trump, for all of his insulting diatribes against immigrants from south of the border actually did better among Latino voters than Mitt Romney in 2012. And when he attacked the Carrier Company for planning to move its factory to Mexico, he was talking about a plant where 50 percent of the workforce is African American. Women make up half the workforce on the assembly lines. The facility also employs dozens of recent Burmese immigrants.<sup>2</sup>

It was only after being pushed by Vermont senator Bernie Sanders in the primaries that Clinton backtracked on her support for the TPP, which she had once called the "gold standard" for trade agreements.<sup>3</sup> And it was only after he was offered the nomination for vice president that Virginia senator Tim Kaine reversed himself on the TPP. But many voters in the Midwest were understandably skeptical. In the primaries of 2008, both Clinton and Barack Obama promised voters in the Midwest that they would renegotiate NAFTA, and quickly broke that pledge after Obama became president and Clinton secretary of state.

As the working class grew angrier, their concerns – and those who tried to defend them, from industrial union leaders to members of Congress such as Bernie Sanders, Ohio representative Marcy Kaptur, and Ohio senator Sherrod Brown – were consistently ridiculed by columnists, economists, and editorial writers. The conventional economic wisdom was that workers should be grateful to have traded away good jobs and wages, stable communities, and a future for their children in exchange for cheap underwear and cell phones.

U.S. trade policies have clearly turned out to be bad politics. *But they are bad politics because they are bad economics.*

If the American political establishment is to learn anything from this election, it has to start by ending its 20 years of deception, denial, and anti-democratic arrogance over trade policies. It can respond to Trump by digging in its heels to protect corporate globalization or can use this as a wake-up call to rethink new strategies that return American workers to the center of America's economic policies.

The first step is to recognize how U.S. elites have deluded themselves and the country on trade.

### **Trade myths**

Promoters of trade agreements from NAFTA to the TPP have not honestly dealt with their critics. Instead of acknowledging the obvious failures, they have stubbornly defended themselves by attacking opponents with irrelevant denunciations of "protectionism."

Says Barack Obama in defending trade, "We cannot seal ourselves off from the rest of the world."<sup>4</sup> Brookings Institution economist Gary Burtless adds: "Do we really think it would be a good idea for the U.S. not to have been able to trade in 1916 or 1886?"<sup>5</sup>

The accusation is false and the argument irrelevant. Trade as a share of our economy was increasing way before NAFTA and will continue at a high level after TPP is officially rejected.<sup>6</sup>

Despite the labeling, NAFTA and the NAFTA-like deals that have followed agreements are not "free trade" agreements. Only six of 30 chapters of the TPP directly address questions of trade. The rest lay down rules that protect the interests of multinational investors above those of workers, the environment, and human rights. It is rife with restrictions on domestic policies – including restrictions on government policies to favor local procurement – that protect multinational corporate rights to future profits. To enforce those rights, the TPP would establish an Investor-State Dispute Settlement system by which corporate-affiliated judges can override the decisions of democratic governments.<sup>7</sup>

These are not the rules that existed in 1886 or 1916 – or any time before 1994.

The United States has always been a trading nation, but not a "free-trading" nation. Until a quarter century ago trade policy – primarily the raising and lowering of tariffs – was an instrument of *domestic* economic development. As the U.S. economy grew, so did its trade with the rest of the world. For the hundred years of America's post-Civil War industrialization, America's trade was in balance or in modest surplus, i.e., we paid for our imports with exports.<sup>8</sup>

Balanced trade reinforced virtuous cycles of internal economic growth. When a company replaced workers with machines, the increased profits were reinvested in other domestic industries, creating new jobs. Balanced trade helped assure that the benefits of rising productivity and technological change were widely shared by American workers as well as investors.

After World War II, American producers emerged with a unique and temporary comparative advantage over foreign competitors. The U.S. government therefore

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became a champion of lower tariffs. The new policy was also a weapon in the Cold War; providing access to the huge U.S. market dwarfed whatever the Soviet Union could offer to countries for whose loyalties we were competing.

Inevitably, Europe and Japan recovered, taking back their own markets – and reaching into ours. In the late 1970s the United States began to run chronic trade deficits, a market signal that it was losing competitiveness. By 1979, real wages of U.S. workers began to stagnate, and then fall. With the collapse of the Soviet Union in the next decade, the geopolitical rationale for Cold War trade policies also disappeared.

At this point in history, American leaders should have adjusted the country's policies to help its people cope with changing international conditions. But in the 1980s, business and financial institutions with global operations grew more dominant in Washington. Instead of helping working Americans regain the long-term trend of rising wages, pro-corporate *domestic* economic policies further weakened the bargaining power of labor vis-a-vis capital.

As did pro-corporate *international* economic policies. Beginning with NAFTA, U.S. trade policy made a radical and reactionary break with the past. In effect, it responded to the changing circumstances by allowing U.S. corporations to shed the economic and social responsibilities of being “American.”

Specifically, NAFTA freed U.S. corporations to produce in Mexico – where labor was cheap, regulations lax, and government officials more than happy to serve the interests of foreign investors – *and to sell those products back in the United States*. And as Jorge Castañeda, who later became Mexico's foreign minister, put it, NAFTA was “an agreement for the rich and powerful in the United States, Mexico, and Canada, an agreement effectively excluding ordinary people in all three societies.”<sup>9</sup>

NAFTA became the template for the neoliberal trade agreements that followed: the World Trade Organization in 1995, the PNTR (permanent normal trade relations) agreement with China in 2000, the CAFTA (the Central America Free Trade Agreement) in 2005, and the U.S. – Korea Free Trade Agreement in 2012.

NAFTA was the model for the TPP.

#### **A trail of broken promises**

The central argument to Congress made by the promoters of NAFTA and the trade deals that followed was:

1. Because other countries had higher tariffs than the United States, reducing trade barriers would cause U.S. exports to rise faster than imports.
2. The annual trade deficits would therefore disappear.
3. As exports rose to equal if not exceed imports, U.S. jobs and wages would increase.

When NAFTA was passed, the United States was running a trade surplus with Mexico. President Bill Clinton promised that NAFTA would increase the surplus, creating 200,000 new American jobs in its first two years and a million jobs in five years. By 2010, deficits with Mexico had cost the United States 700,000 jobs.<sup>10</sup>

NAFTA's promoters conceded that they might have "oversold" its benefits, but argued that only the lowest paying jobs at the bottom of the skill ladder were being lost. And, anyway, they insisted, the benefits from cheaper goods made these Americans better off.

But "jobs at the bottom" were defined as those held by noncollege graduates who represent two-thirds of the labor force! And as economist Josh Bivens showed, in 2011 increased trade with low-wage countries lowered the annual real wages (which take the effect of lower consumer prices into account) of noncollege graduates by \$1800.<sup>11</sup>

As the U.S. government signed more trade agreements, the job losses rose relentlessly up that ladder. Highly skilled industrial work — in autos, steel, and electronics — was the next to go, as low-wage nations with free access to the American market rapidly educated and trained their own technical workforces. U.S. process-engineering sectors that depend on interaction with manufacturing followed, ultimately weakening the advanced research networks that generate new products. The U.S. trade surplus in high-tech industries turned into a deficit.<sup>12</sup>

The pain spread into the high-end service sector, affecting professional services, for example accounting, law, data analysis, entertainment, internet management, inventory control, and record-keeping. In a deregulated global market, any job that can be done with a computer can be offshored to places where costs are cheaper.

As they continued to promote new trade deals, Republican and Democratic leaders told Americans anxious about their future to get more education. They did, and growing numbers of younger, more educated Americans now find themselves with massive school debts, floundering in a labor market where wages are stagnant. The real wages of young college-educated workers in 2016 were no higher than they were 15 years before.<sup>13</sup>

To cover up the failure of trade deals to deliver jobs and higher wages to American workers, the promoters of the TPP simply ignored the facts. Thus, for example, a "fact sheet" on the Obama White House website claimed, "Last year, we broke the record in American exports for the fifth year in a row, selling \$2.34 trillion in goods and services abroad. And here's why that's important: The more we sell abroad, the more higher-paying jobs we support here at home."<sup>14</sup>

But nowhere in this "fact sheet" were we told that over the last five years imports have risen faster and higher than exports. And here's why that is *more* important: trade deficits reflect the net loss of jobs, including those that pay above average. Ignoring imports in analyzing trade is like ignoring withdrawals in analyzing your checkbook balance.

Labor markets are linked. When factories close, business drops off for suppliers, retailers, and services. Tax revenue falls, affecting education, health, transportation, and other government services. When workers laid off from \$25 an hour jobs compete for jobs with other noncollege-educated workers, wages fall overall. And when profits from labor saving automation that used to be reinvested in new industries in the United States are reinvested in industries elsewhere, the

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bargaining position of the next generation of workers is undercut as well. Imbalanced trade – in which we are importing more than we are exporting – helps turn the short-term dislocation of workers by technological change into permanent joblessness and lower incomes.

Thus, the radical shift in trade policy since NAFTA has made a major contribution to the growing gap between the productivity of American workers and their incomes.<sup>15</sup>

**“This one is different”**

With each deal, we have been told that this one is “different.” President Obama promised that the TPP would “raise standards.” But standards were being lowered, not raised. Thus, for example, NAFTA required that at least roughly 65 percent of a product imported from Mexico actually be made in Mexico to qualify for a lower tariff. Even so, it meant that 35 percent of a product imported into the United States could be made in a country with even lower wages. The TPP lowered that “rule of origin” to require that only 55 percent – and in some cases only 30 percent – of a product needs to be made in TPP member countries to qualify for preferential tariff treatment. In effect, it means that means that TPP countries could continue to ship goods to the United States that are largely made in China.

As economist Rob Scott has shown, China, which is not part of the TPP, already runs a large trade surplus with TPP countries while the United States runs trade deficits with them.<sup>16</sup> The TPP’s rules of origin would therefore have widened the “backdoor” to the U.S. market for more Chinese-made industrial and high-tech components.

Even die-hard supporters of neoliberal trade agreements concede that the ability of our trading partners to manipulate their currency to make their exports cheaper than their trading partners’ domestically produced goods is a major drag on the competitiveness of U.S. products. But U.S. negotiators, and the roughly 500 corporate lobbyists who advised them on the TPP behind closed doors, came back empty-handed on this issue. Our Asian trading partners, who routinely use currency manipulation to make their exports cheap, refused to discuss it. So we didn’t.

The Obama administration claimed that the TPP has stronger language on labor rights than NAFTA. But it is at best cosmetic, and as usual, there is no serious enforcement mechanism. There is no court or procedure with teeth for violations. Indeed, it is clear that under the current corporate-dominated mindset, the American government has no serious intention of enforcing such rights in trade agreements.

As AFL-CIO president Richard Trumka pointed out last year, the Office of the U.S. Trade Representative, which is charged with negotiating the deal and would be charged with enforcing it, does not even believe that murder and other brutal acts committed against labor union activists violate the “worker-protection” clauses to trade agreements.<sup>17</sup>

Even the fervid promoters of the TPP stopped predicting any but the most marginal of economic gains. The International Trade Commission, for example,

making a series of optimistic assumptions and claims about the economy farther into the future than anyone could possibly see, predicted that the TPP would increase annual U.S. GDP by the equivalent of one month's growth — by 2047!<sup>18</sup> That the U.S. government would further risk the future of a majority of American workers for the promise of such a tiny reward reveals the bankruptcy of the economic case.

#### **National security: An argument of last resort**

With the economic case in tatters, it was no surprise that TPP promoters then reached for other arguments, which had even less credibility. They shifted from the claim that the TPP would make Americans prosperous to the claim that it would make us safer, i.e., by containing China's influence in Southeast Asia.

Defense Secretary Ashton Carter said "passing TPP is as important to me as another aircraft carrier."<sup>19</sup> Eight former defense secretaries assured congressional leaders that approving the TPP would "contribute to a safer world for us, our children and our grandchildren."<sup>20</sup> Obama's former chief economist Alan Krueger told us that "trade agreements are primarily about foreign relations."<sup>21</sup>

But we have been hearing that trade deals were needed to make America safer for the last 20 years. And for 20 years the predictions of national security experts have not fared any better than the predictions of their economic counterparts.

For example, NAFTA was supposed to secure the southern border of the United States, reducing illegal immigration and creating a stable rule-of-law democracy south of the border. Instead, the destruction of much of Mexico's farm and small business sector vastly increased the flow of undocumented workers, creating a major political and social crisis in the United States. And, partly because NAFTA made it easier to bring drugs into the United States from both Mexico and Latin America, lawlessness and social instability associated with the drug trade have become widespread.

The State Department now warns Americans against traveling to Mexican border states.<sup>22</sup> As for border security, we have reinforced our southern frontier with drones, dogs, a 700-mile fence, some 6,000 guards and even bands of extralegal vigilantes. NAFTA clearly made us less secure.

A few years after being sold on NAFTA, Americans were told that opening up our markets to China with a special deal that brought it into the World Trade Organization was a clever geopolitical strategy to "pull China in the right direction."<sup>23</sup>

After 16 years of continuous job loss and a relentless trade deficit that has transferred trillions of dollars from the United States to China,<sup>24</sup> we are now told that China moved in the *wrong* direction. Instead of becoming a free-market Western-style democracy content to be America's junior partner in Asia, China has developed its own authoritarian capitalist model and is a rival for U.S. influence in the region.

In response, the United States is building up its network of military bases in Asia and supplying more weapons and training to China's neighbors — all of which are, ironically, following China's "wrong" model of authoritarian capitalism.

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Today, U.S. and Chinese war planes and ships are circling each other in the South China Sea over territorial disputes that have nothing to do with the security of the people of the United States.

Short of war, the United States can no more stop China from dominating the South China Sea than China can stop the United States from dominating the Caribbean. China's neighbors' trade with China already dwarfs their trade with us. If anything, the TPP would have accelerated the expansion of China's economic power. By weakening the standards for "local content," it would have increased the proportion of TPP countries' exports to the United States that are made in China, adding to China's massive cache of dollars.

Moreover, despite their current national security rhetoric, the TPP negotiators actually dropped the provisions in previous trade deals that allowed the U.S. government to stop foreign acquisitions of American firms if deemed a threat to national defense.

According to President Obama, failure to approve the TPP "would call into question America's leadership in this vital region." But why would that be so? Certainly, the leaders of the other nations involved understood that congressional approval was not a sure thing. Now that the pact appears dead, they are disappointed, of course. But, the TPP will not be the first agreement negotiated by a U.S. administration that Congress has turned down. Congress has still not ratified the 1982 Law of the Sea Treaty, a comprehensive set of rules governing the international use of the oceans. Has the U.S. Navy lost credibility? Do other nations not ship their goods to us? Do we still not assume the role of guarantor of freedom of the seas?

The United States suffered a humiliating military defeat in Vietnam, and we are still by far the most respected military force in the region.

The United States will remain a major player in Asia without the TPP. And our Asian "partners" are not likely to stop using us as a piece in their political chess games with China because they lose the greenlight to sell us even more underwear and electronic gadgetry than they do now.

Nations deal with one another on the basis of self-interest. The idea that we must prove ourselves trustworthy to foreign politicians by trading away the interests of our own people makes little sense.

### **Moral hypocrisy**

With their economic arguments discredited, promoters also began draping these trade and investment pacts with a mantle of moral superiority. American workers who complained were told that they should be ashamed of themselves. Why? Because offshoring their jobs helps workers in other countries who are even poorer.

Paul Krugman told his *New York Times* readers that they should support "open world markets...mainly because market access is so important to poor countries."<sup>25</sup> Charles Lane in the *Washington Post* said Bernie Sanders' criticism of trade deals reveals a "certain selfishness" toward people in "poverty more grinding and miserable than anything even the worst-off Americans have experienced in recent



years.”<sup>26</sup> Zack Beauchamp of *Vox* writes that the moral question is, “how much we’re willing to hurt the world’s poor in order to help ourselves.”<sup>27</sup>

Self-sacrifice for others is a noble sentiment. But proclaiming moral superiority by demanding that other people do the sacrificing is base hypocrisy.

America is a rich country. But it is not *America* that is being asked to sacrifice. Neither is it America’s rich, whom NAFTA-like trade deals have made even richer. Nor is it the professionals who manage and promote the interests of the 1 percent.

Instead, the sacrificing is reserved for those lower- and middle-income Americans who already have been kicked down the economic ladder by investor-privileged globalization.

There is a nasty subtext at work here — smug upper-class professionals’ contempt for working people. Globalization’s “losers” are caricatured as older white men without college educations who are overpaid to work in U.S. factories — and probably racist and sexist to boot. Roger Cohen of the *New York Times* dismissed them as “Trump’s people.”<sup>28</sup> And so, thanks in part to such dismissals of working people, they were.

For economic elites to justify the undercutting of American workers’ living standards on the grounds that workers elsewhere are even poorer is not just hypocrisy. It is also simplistic economics.

It assumes that if expanded trade is making workers in the United States poorer, workers in poorer countries must be becoming richer.

That may have been the logic of the past. But the trade agreements of the last 20 years, including the rules establishing the World Trade Organization in 1995, radically redistributed the benefits of trade upward without increasing the total gains.

As economist Josh Bivens points out, supporters of trade liberalization have claimed that increased international trade over the last 60 years has produced huge benefits for American families. But even if they are right, the numbers show that 99.9 percent of the benefits of trade materialized *before* the implementation of NAFTA and its successor agreements.<sup>29</sup>

Meanwhile, the gap between U.S. and Mexican wages remains as wide as it was 20 years ago,<sup>30</sup> and distribution of income and wealth is worse — as evident in the increase in Mexican workers risking their lives by illegally crossing the border into the United States in search of work.

China, the poster child for free trade moralists, has a level of inequality higher than even the United States.<sup>31</sup> Independent trade unions are outlawed, occupational disease and accident rates are recklessly high, and child labor is rampant.

At the same time, China has more billionaires (in U.S. dollar terms) than the United States itself.<sup>32</sup> Not to be outdone by the rest of the global mobile rich, they flaunt their wealth in every major city in the world.

The assertion that that American workers should sacrifice their jobs and their children’s future so that Third World plutocrats can bid up real estate prices in Manhattan, Los Angeles, and Miami makes a mockery of moral compassion.

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### First things first

Washington's fixation with trade agreements has diverted attention from the more important question of globalization: What economic strategies can put American workers back on the historic track of rising wages and opportunities? Trade agreements should *follow, not lead*, the answer.

But for the last two decades Democratic and Republican leaders have had it backwards – rushing into international agreements that trade away the bargaining power of American workers in order to gain protections for corporate investors in international markets. We do not know whether or to what extent Trump will change this. It is not clear what he means by better bargains on trade deals. But we do know that the central need is not for trade deals, but a better economic strategy.

Again, the issue is not foreign trade, *per se*. Other advanced nations, such as Germany and the Scandinavian countries, have rising wages and large trade sectors. The difference is that they have policies to make sure the benefits of trade are widely shared.

Sensible observers agree that to successfully compete in the global economy, Americans need massive investments in education, training, infrastructure, and technology – and reforms in taxes and macroeconomic policies. Without better policies to increase the competitiveness of American workers, each new trade deal further undercuts the incomes and opportunities of the majority of Americans.

For the last twenty years, before Congressional votes on trade treaties, trade deal promoters have made vague promise that investments and reforms will come – later.

But “later” never comes. With each trade deal, corporate constituents become even less willing to pay taxes to improve the skills of American workers. Why should they, when they can get workers overseas, where both wages and taxes are lower?

Workers are thus left with little but expressions of sorrow that things haven't worked out. And the politicians who had promised to protect them offer hollow assurances that they really do feel the pain of the ex-steelworker mopping floors at Burger King and the college graduate waiting on tables and walking dogs.

We are in a hole, and it is time to stop digging. The logic of both international economic policy and domestic politics calls for putting the needed investments and reforms in place *before* any new deals are made that will expand trade.

To climb out of this hole we must call on President Trump to announce an indefinite freeze on any new trade negotiations. We must also urge the administration and Congress to support a comprehensive global economic agenda for making American workers competitive and balancing our trade with the rest of the world. Such an agenda would include:

- Increased domestic investments in education, infrastructure, and technology aimed at expanding production and product development in the United States.
- Policies to restore the bargaining position of American workers, including enforcement of trade union rights.
- Affordable health care and worker adjustment programs aimed at a transition to better jobs.

- Tax and regulatory reforms that favor domestic growth.
- Restrictions on currency manipulation by trading partner nations and requirements that they abide by minimal labor and human rights standards.
- Restrictions on tax havens.

Only when we have established the conditions that would allow for trade that is balanced and trade benefits that are shared with workers, should the U.S. government consider further liberalizing our commerce with other nations.

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