

Contact: I. M. (Mac) Destler (202) 328-9000
June 15, 2005

NEW “SOCIAL COMPACT” NEEDED TO RESTORE CONSENSUS FOR OPEN TRADE POLICY

Washington, DC—The United States should combine continued trade liberalization with major steps to help Americans who lose from globalization, says I. M. (Mac) Destler in the new edition of *American Trade Politics*. Further opening of international markets, including the US market itself, will generate sizeable gains for the overall US economy.¹ There are substantial costs to individuals from this process, however. So liberalization should be pursued in parallel with a “new social compact” that includes

- broadening of eligibility for stipends and retraining under current trade adjustment assistance (TAA) programs to all Americans displaced from their jobs by economic change;
- making “wage insurance” broadly available as an alternative, with removal of current arbitrary age and procedural restrictions;² and

¹ Complete liberalization would, according to Institute estimates, add \$500 billion a year to US GDP, just as prior trade liberalization has increased Americans’ income by roughly a trillion dollars annually. See Scott C. Bradford, Paul L.E. Grieco, and Gary Clyde Hufbauer, “The Payoff to America from Global Integration,” in C. Fred Bergsten and the Institute for International Economics, *The United States and the World Economy* (Washington: Institute for International Economics, 2005), chapter 2.

² Officially known as “alternative trade adjustment assistance,” wage insurance offsets a portion of the wage losses of displaced workers who take lower-paying jobs. See Lori G. Kletzer and Howard Rosen, “Easing the Adjustment Burden on US Workers,” *The United States and the World Economy*, chapter 10.

- increased incentives for employers to provide on-the-job training to displaced workers, through enactment of a “human capital investment tax credit.”¹

Through measures such as these, the United States could simultaneously maximize its overall gains from globalization and maximize the number of citizens who would share in these gains.

The current condition of US trade policy appears grave, as the Bush administration faces the daunting task of winning House approval of the Central American Free Trade Agreement (CAFTA) and as trade temperatures rise on Capitol Hill because of China’s undervalued currency and surging textile exports. Yet beyond the present rather bleak horizon, brighter prospects emerge, reports Destler.

Destler has comprehensively revised and expanded his award-winning book, which has become recognized as the standard work in the field. Four new chapters speak specifically to major developments in the 10 years since publication of the 3rd edition in 1995:

- *Globalization has made business-based protectionism a shadow of its former self:* Notwithstanding rising trade deficits and minimal employment gains following the 2001 recession, there has been remarkably little pressure from business for new trade restrictions. Auto producers are not seeking trade relief; textile makers have adapted to trade expansion. This stands in stark contrast to the situation 20 years ago, when a then-record trade deficit of just over \$100 billion triggered a broad range of protectionist demands.
- *But another source of resistance to trade expansion has burgeoned: concern over the social effects of trade and consequent demands—reinforced by the antiglobalization movement—that trade agreements address foreign labor and environmental standards.*

¹ See Catherine L. Mann, “Offshore Outsourcing and the Globalization of US Services,” *The United States and the World Economy*, 306–7.

- *The rise of partisan rancor on Capitol Hill, particularly in the House of Representatives*, has weakened US capacity to address these social issues. In past decades, cross-party internationalist coalitions centered in the Ways and Means Committee proved adroit at fashioning compromises on such issues. But that committee was bitterly divided in 2001 over granting the president Trade Promotion Authority (also known as “fast track”), and the bill to grant it passed by just a one-vote margin. This division continues with CAFTA, and administration hopes for victory seem to rest on replicating that year’s partisan vote, which will require putting the political squeeze on an even larger number of reluctant Republicans.

The narrow margin resulting from partisan rancor has inflated the power of special interests. Exploiting CAFTA’s frail condition, the US sugar industry has leaped into the fray, declaring all-out war against the tiny increase in sugar market access that the agreement provides to Central American nations. There could hardly be a more graphic illustration of how ongoing partisan rancor undermines the administration’s capacity to pursue the serious trade liberalization to which it is committed.

- Such partisan divisions have been deepening for years, of course, and have roots outside trade policy. They will not be easily bridged. But the most plausible means of doing so is to *combine trade liberalization with a comprehensive, sustained program of financial assistance and retraining for all US workers displaced by economic change*, as set forth above. The cost would be of the order of \$20 billion a year.

Given the decline of traditional protectionism and the substantial (if unequally distributed) societal gains from globalization, an unvarnished protrade and proadjustment agenda is within reach as never before, Destler argues. The United States can and should complete the transition to globalization by negotiating away its remaining trade barriers. But for both political and substantive reasons, this liberalization must be linked to comprehensive assistance to those who are globalization’s losers.

About the Author

I. M. (Mac) Destler, visiting fellow, is a Professor at the School of Public Policy, University of Maryland. He was formerly a senior fellow at the Institute, senior associate at the Carnegie Endowment for International Peace (1977–83) and at the Brookings Institution (1972–77), and visiting lecturer at Princeton University (1971–72) and the International University of Japan (1986). He is the author or coauthor of 14 books on American trade politics and foreign policymaking, and US-Japan economic relations, including *The New Politics of American Trade: Trade Labor and the Environment* with Peter Balint (1999), *Renewing Fast-Track Legislation* (1997), *The National Economic Council: A Work in Progress* (1996), *American Trade Politics* (3d ed. 1995), and *Dollar Politics: Exchange Rate Policymaking in the United States* (1989).

About the Institute

The Institute for International Economics, whose director is C. Fred Bergsten, is the only major research center in the United States that is devoted to global economic policy issues. The Institute's staff of about 50 focuses on macroeconomic topics, international money and finance, trade and related social issues, and international investment, and covers all key regions—especially Europe, Asia, and Latin America. The Institute averages one or more publications per month; holds one or more meetings, seminars, or conferences almost every week; and is widely tapped over its popular Web site.

American Trade Politics, 4th ed.

I. M. (Mac) Destler

ISBN paper 0-88132-382-9

June 2005 • 373 pp • \$27.95