At Issue

The Real Trade Question

In the middle of perhaps the most decisive year in the history of American trade policy—and perhaps foreign policy—since the late 1940s, it is hard to say who is more confused, the Clinton administration or its critics.

The new administration has taken a pugnacious line toward two of America's largest trading partners, Japan and the European Community, and during its first months in office it seemed to be of two minds about the merits of the pair of momentous free-trade measures bequeathed it by its Republican predecessors, the North American Free Trade Agreement (NAFTA) and the larger General Agreement on Tariffs and Trade (GATT). Talk of an international trade war, the likes of which we have not seen since the 1930s, was thick in the air, and despite the administration's guarded embrace of the two pacts (pending modifications), the rumors of war have not entirely dissipated. They were stirred up again in June, when the administration announced that it would seek a form of "managed trade" with Japan in some areas of commerce.

The administration's critics, especially those in the press, complain that it cannot make up its mind about trade. On the one hand, they say, government officials threaten America's partners with retaliation for trade practices Washington finds objectionable, while on the other President Clinton repeatedly affirms his commitment to free trade and to completion of a GATT treaty. "Both directions of policy have their own logic," the *Economist* (May 8, 1993) says. "But to combine them has no logic at all."

Such critics assume that the government has only two choices: free trade or protectionism. Yet as administration economists would no doubt be the first to say, there is no real alternative to free trade. The reason is that there is no other theory of how the world economy works—or ought to work. The essence of free trade is the idea of comparative advantage, propounded more than 200 years ago by Adam Smith and later elaborated by David Ricardo. It says, with blinding simplicity, that the best way for all to prosper is for each region to produce the goods it can manufacture most cheaply and efficiently and to trade them with other regions for the goods that they produce most efficiently. An appreciation of the virtues of unhampered trade across political borders inspired, at least in part, some of the momentous developments in modern history, including the U.S. Constitution and the creation of the European Community (then called the Common Market) in 1957.

One will search in vain through all the recent variants of the protectionist idea, from Clyde Prestowitz's *Trading Places* (1988) to Lester Thurow's *Head to Head* (1992), for a comprehensive alternative understanding of the world economy. There is, of course, much angry discussion of how other nations exploit the weaknesses of a system of open trade and of how the United States might do so—as if it does not do so already. "Managed trade," advocated by, among many others, the chair of President Clinton's Council of Economic Adviser, Laura D'Andrea Tyson, in her book, *Who's Bashing Whom?* (1993), is a remedial policy but not an economic theory. There may be a case for sheltering certain "strategic" U.S. industries from foreign competition and nurturing them with special federal assistance, as Tyson and her allies argue, but many economists remain unconvinced that anybody can identify the right industries. In any event, "managed trade" is an exception to free trade, not an alternative to it. The only true alternative to free trade is mercantilism, but the world's largest economy cannot be run according to mercantilist principles—nor, as the Japanese are learning, can its second largest economy.

What, then, accounts for the Clinton administration's Dr. Jekyll and Mr. Hyde act on trade? The most hopeful interpretation is that it represents an attempt to readjust the cost of

America's historic leadership role in promoting open trade. The dire interpretation is that it represents a repudiation of American leadership. While many of the government's critics have mistaken a political question for an economic one—free trade versus protectionism—the administration itself seems unclear about the nature of the political choices the country confronts.

The cost of American leadership on trade after the Cold War is what the national trade debate ought to be about, and sometimes manages to be. At a Washington conference, "Toward a New Trade Consensus," cosponsored by Prestowitz's Economic Strategy Institute in March, MIT's Lester Thurow faced off on just such a question against Jagdish Bhagwati, the Columbia University economist whose slim volume, *Protectionism* (1988), established him as perhaps this country's most eloquent defender of free trade. After the two "antagonists" (and other participants) had emptied their guns at each other during a session on GATT, it appeared that they did not fundamentally disagree at all. Thurow argued that the current round of GATT talks (inaugurated in Uruguay in 1986) should be reopened before any treaty ratification so that new agreements prying open foreign markets in services and other areas could be negotiated; Bhagwati favored ratification of the proposed treaty and a new GATT round to take up these issues. A serious argument, yes—and one which Thurow's side has since, in essence, won—but seemingly not the product of irreconcilable differences. It is a political disagreement, it should be pointed out, not an economic one. Each has a different answer to the question of how high a price to pay in order to keep the global free-trade ball rolling. Bhagwati is willing to sacrifice immediate satisfaction of U.S. interests; Thurow is not.

This is a question that, during most of the post–World War II era, did not really need to be asked. As historian Robert Pollard observes in *Economic Security and the Origins of the Cold War, 1945–50* (1985), American officials after World War II believed, as President Harry S. Truman declared, that "Sound and healthy trade, conducted on equitable and nondiscriminatory principles, is a keystone in the structure of world peace and security." Convinced that the breakdown of international trade was largely responsible for the conditions that led to war, Washington consciously sacrificed short-term U.S. interests to underwrite a series of efforts to ensure a "multilateralist" international system: the Marshall Plan, the Bretton Woods system, the World Bank and International Monetary Fund, and, in 1947, the first GATT agreement. For three decades, the idea that it was America's unique responsibility as leader of the Free World to foot the bill for creating an increasingly open world economy was seldom questioned.

Under the bargain struck during the 1940s, the United States subordinated its short-term economic interests to its longer-range political interest in a more prosperous and united Free World. It was, however, quite a good deal for the United States, such a good deal that revisionist historians—Joyce and Gabriel Kolko, among others, in *The Limits of Power* (1972)—have argued that it was all a capitalist plot. America was able to meet its commitment on the cheap. Its home markets were largely impervious to foreign competition while its exporters enjoyed enormous advantages overseas. As a result, it could afford to wink at protectionist policies in Japan and Western Europe. Ever since the early 1970s, when the United States began experiencing chronic trade deficits and losing what seemed like one industry after another to foreign competition, the bargain has not looked so good. The Japanese and German Frankensteins were evidence that the American leaders who plotted a postwar world of national competition on economic rather than military grounds had succeeded perhaps too well.

Now that this strategy has helped bring an end to the Cold War, a reconsideration of the price America pays for maintaining the global system is entirely in order. Just as the United States should no longer be expected to bear the lion's share of the burden of Western military defense, so perhaps it should be relieved of the need to sacrifice as many of its economic interests in leading the way toward free trade. In the name of preserving Western unity and momentum toward more open trade, the United States in the past often refrained from pursuing to the maximum some of its grievances against the trade practices of other nations, allowing negotiations, for example, to drag on for years. A change may require some hard bargaining, some rancor, even some threats, but it is necessary and virtually inevitable. It should not be imagined, however, that the United States is some sort of victimized giant who is now entitled to an enormous payoff for its decades of painful self-denial. At nearly $6 trillion, the U.S. economy is almost twice the size of Japan's, and it has benefited enormously from the upsurge of world trade. The United States recently reclaimed the status of number-one exporter in the world, ahead of Germany (number two) and Japan (number three). It needs to be careful, moreover, about throwing stones at protectionists abroad. Many American markets, from steel to frozen orange juice, are shielded from foreign competition by tariffs, quotas, and other devices.

Yet there is a popular line of thought in the United States that advocates not merely adjustment of the price of American leadership in the world but rejection of the very notion of American leadership. Advocates of this point of view include Lester Thurow as well as Paul Kennedy, the Yale historian who wrote the *The Rise and Fall of the Great Powers* (1987), Clyde Prestowitz, and many others. Even before the end of the Cold War, they argued that political and military power in international affairs is increasingly irrelevant and that economic competition is everything. The United States, as Thurow puts it, will be in the very near future "just one of a number of equal players playing a game where the rules increasingly will be written by others."

It is the perennial American temptation to flee politics, and over the years both liberals and conservatives have found economics to be one of the more promising escape routes. The imperatives of the corporate bottom line and the national bottom line seem to offer immeasurably simpler guides to action than do political interests, ideals, and values. Certainly it must be tempting for the officials responsible for negotiations with Japan, many of whom have had long and painful experience in the private sector dealing with the Japanese, to conflate America's economic interests with its national interest. But as the United States discovered in Kuwait and (unhappily so far) in Bosnia, and as it will doubtless be reminded many times in the future, even the conclusion of the Cold War has not made the American wish for an escape from politics come true. It has not brought an end to international politics or to "history," as Francis Fukuyama predicted in his famous essay—or to the need for political leadership in the world. If a system of more open trade is in America's interest then it will have to help create one.

Exerting leadership means bearing costs, negotiable costs, to be sure, but costs nonetheless. What remains unclear is whether U.S. Trade Representative Mickey Kantor and the other tough-talking Clinton administration trade negotiators view theirs as a fundamentally political undertaking. Are they aiming to renegotiate the terms of American leadership, or are they repudiating the very notion of such a role and striking out simply to cut the best possible deal? Or are they unsure themselves?

These uncertainties underscore the need for a new debate about trade and the American future, a debate that goes beyond the costs and benefits of particular policies and acknowledges that what is ultimately at issue is the American role in shaping the world after the Cold War.