

Compete, Don't Retreat

Promoting Opportunity and Growth through Open and Fair Trade

Hope Street Group | October 2007



Executive Summary

The Opportunity

It is not surprising that trade policy has been causing great controversy in the United States and around the world, especially since the past two decades have been witness to a movement toward more open trade policies that have launched major trade agreements. On the one hand, open and fair trade creates the conditions for economic prosperity and greater economic opportunity by 1) expanding new markets for American products and services; 2) lowering prices and increasing consumer choices; 3) attracting foreign investment in the United States; and 4) creating a more stable world by helping poor countries get on the path to economic development. On the other hand, increased competitive pressures due to open trade policies can lead to painful layoffs and facility closures, disrupting domestic companies that compete against low-cost imports.

Hope Street Group believes that by reshaping the debate to focus on helping U.S. workers and building a more effective support system to help workers adjust to economic disruption, leaders in Washington can have the best of both worlds – politically viable policies that help individuals and firms navigate the potential challenges of free trade while fully reaping its benefits for the economy.

The Challenge

Rebuilding a consensus supporting free trade will require a comprehensive policy that aggressively pushes for opening new markets, ensures that our trading partners meet their commitments, and addresses head-on the dislocations created by free trade by ensuring that America's workers have the best skills and education in the world. By reshaping the debate to focus on helping U.S. workers and building a more effective support system to help workers adjust to economic disruption, leaders in Washington *can* have the best of both worlds—politically viable policies that help individuals and firms to navigate the potential challenges of free trade while fully reaping its benefits for the economy.

Free trade is in the economic interest of the United States for at least three reasons:

- **First, free trade is a catalyst for economic growth in the United States** because lower trade barriers (such as tariffs and taxes) reduce the cost of importing goods and services. This, in turn, helps keep prices lower along the supply and production chain, which reduces the cost of goods and services to consumers. Lower price pressures also mean lower interest rates, which can boost investment in housing, industrial capacity, and productivity-enhancing technology.
- **Second, free trade promotes improved productivity by US firms.** Open markets, by definition, allow lower cost producers to participate in setting prices. So, Chinese manufacturing firms, paying an hourly wage of \$0.40 per hour, compete directly with a U.S. firm paying \$10 per hour. This dynamic forces the higher cost producer to innovate to improve quality or lower costs, both of which benefit consumers. Huge benefits have accrued to U.S. firms as investments in technology, among other factors, have led to dramatic gains in productivity and efficiency. Of course, some of these gains come at a

cost to individuals and firms, and occasionally entire industries, and we will discuss how to address these costs below.

- **Third, opening US markets helps poor countries get on the path to economic development.** The path for many developing countries into the club of economically developed nations begins with agriculture. Improving agricultural efficiency increases migration into towns and cities, where the development of a manufacturing and services sector generally occurs more readily. However, if global agricultural markets are flooded with subsidized crops, or US markets are closed off to developing countries' manufacturing exports, this development path is shut off.

The U.S. economy's flexibility is a considerable strength that supports the nation's long-term economic success. However, there can be no denying that these disruptions cause considerable concern and sometimes real economic pain to U.S. workers and their families. Rather than pursuing protectionist policies—which will inevitably cause more harm in the long run—Hope Street Group believes that policy needs to focus on investing in workforce skills and dramatically upgrading support to workers in firms in industries most vulnerable to foreign competition.

The Solution

Bipartisan cooperation to ensure open trade with worker protection is possible, as revealed by recent discussions between the Bush Administration and Democrats in Congress that would add labor and environmental conditions to trade bills in exchange for Democratic support. As the 2008 presidential election approaches, Hope Street Group encourages the candidates to approach trade with a view to the potential long-term benefits for U.S. households and workers:

1. **Develop a “grand compromise” to break the current gridlock in global trade agreements.** The focus of trade policy should be on global agreements, as these encompass a bigger volume of trade, avoid potential distortions created by a plethora of smaller deals, and at least potentially create tradeoffs that ultimately result in lower tariff levels. Regional and bilateral trade agreements should be seen only as a backstop where progress on global liberalization is impossible. “Fast track” authority to present trade deals to Congress for an up-or-down vote is critical to enable executive branch officials to negotiate effectively in multilateral forums.
2. **Dramatically modernize and enhance the support network for American workers affected by trade or other economic disruptions.** Making health insurance and pensions portable from job to job would increase efficiency and decrease the risk associated with labor market changes. Existing programs to help workers find new employment and relocate could be improved and fully funded.
3. **Invest in the American workforce.** For the current workforce, this includes supporting workforce development and mid-career retraining programs. For the future workforce--our children—a quality education gives them the flexible skills they need to compete in an uncertain and dynamic global economy.

4. **Improve the business environment for U.S. firms and businesses, making it easier for them to innovate and compete.** The aforementioned steps to improve the skills of the U.S. workforce will help businesses compete as well. Reforming the current system of corporate welfare will level the corporate playing field and lower the cost of government, helping U.S. firms compete internationally.

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Hope Street Group represents a new generation of professionals, executives, and entrepreneurs dedicated to revitalizing the American Dream by promoting economic opportunity and prosperity for all Americans. Hope Street Policy Papers are written by volunteers supported by Hope Street Group staff. Papers typically synthesize positions from think tanks of the left and right, and are intended to be user-friendly tools for busy decision-makers to more easily promote opportunity and prosperity. To learn more, visit www.hopestreetgroup.org.