CHAPTER 4

Back to "America First"

Deregulation, Economic Nationalism, and New Rationales for Protection

From 1945 to 1979, most Americans simply did not care about trade policy. It was not the stuff of headlines, front page news, or sixty-second sound bites. Trade policy was made in Washington and in Geneva by a relatively small circle of government officials, trade unionists, business leaders, and academics. Critics of trade policy were not visible to most Americans during these glory days of the U.S. economy. Although many Americans disagreed with certain aspects of U.S. trade policy, they expressed their disagreement in traditional venues—the halls of Congress or executive branch buildings. Critics of U.S. trade policy rarely took to the streets.

But by the 1980s, public frustration about trade "had become a familiar image to many TV viewers." Throughout the decade, in Flint and Detroit, Michigan, as well as in Washington, D.C., some Americans expressed their anger by demolishing Toyota and Datsun cars as well as Toshiba radios. These protesters were not just angry at Japanese companies and workers for their success in U.S. markets. They were angry at U.S. policymakers for not stopping the flood of imports. They blamed these imports for the economic devastation occurring in America's industrial cities.[1]

The streets were not the only venue where Americans vented their anger at U.S. trade policy. In churches, on Capitol Hill, and on talk radio, some blamed the government for letting foreigners "take over" America's market.[2] Meanwhile, other Americans demonized America's trading partners, particularly the Japanese.[3] A growing number of Americans concluded that the global trading system was unfair, that other nations were unfair traders, and that the U.S. government was not doing a good job in making the world a fairer place for U.S. producers.[4] They linked trade to the nation's economic and social problems, which included a soaring budget deficit, high interest rates that dampened investment, and high unemployment.[5]

Other Americans adopted a more radical view of the costs of trade. They saw foreign competition as a war that Americans were losing. They called on their fellow Americans to "fight against the disappearance of the independence of the United States through . . . economic integration."[6]

America's economic and political problems undermined national confidence. As the cold war rationale for freer trade dissipated, and as America continued to experience economic and social problems, it became increasingly acceptable to call for a nationalist trade policy that put Americans first. As imports became more visible, rising from 4.3 percent of GNP in 1953 to 10.6 percent in 1980, it also became acceptable to describe the policies and actions of other nations as unfair simply because they were different. At the same time, academics invented new justifications (such as strategic trade theory) to justify unilateral (as opposed to multilateral) or protectionist actions. Even strong advocates of laissez-faire in the business community and in the Reagan White House embraced new interventionist trade and economic policies in the name of restoring "competitiveness" to the American economy.

While producers had long been concerned about the effects of trade on jobs or specific sectors, new groups and individuals began to examine how trade policy affected the achievement of other policy goals such as protecting the global commons or ensuring consumer welfare. As noted in chapter 3, the Trade Act of 1974 authorized first President Gerald Ford and later President Jimmy Carter to negotiate rules, which were contained in codes, to govern NTBs. These barriers included product standards, procurement codes, and subsidies. As Congress considered the results of the Tokyo Round negotiations, some witnesses testified that these codes could be deregulatory.

The Tokyo Round and the Standards Code

President Jimmy Carter, like presidents Nixon and Ford before him, was unable to revive the American economy to its postwar peak. America's economic stagnation seemed to mirror its declining global clout. In 1979, the Shah of Iran was overthrown and then admitted to the United States for medical treatment. Mobs stormed the U.S. Embassy in Iran, and for nearly two years some fifty Americans were held hostage. But the United

States was unable to rescue its hostages without a full-scale war that no one wanted. This situation left Americans feeling impotent as well as furious.[7]

This sense of political impotency was reflected in the economic policy-making sphere, too. Since the Great Depression, policymakers had learned how to use fiscal, budgetary, or monetary policy to encourage growth in recessionary times. But they did not know how to rescue the nation from stagflation, slow productivity growth, and a rising trade deficit.[8]

President Carter hoped that trade liberalization might spur U.S. economic recovery. He had chosen a shrewd political operator, lawyer Robert Strauss, to close the Tokyo Round. This round was much more complex than earlier rounds because so many nations participated and because negotiators focused on nontariff as well as tariff barriers to trade. Some ninety-nine nations participated in the negotiations. Although the United States was still the largest economy, it could not force its negotiating goals upon its trading partners. The European Community (EC) and Japan joined the United States in governing the direction and content of the negotiations.[9]

The ninety-nine nations found it difficult to reach common ground on harmonizing standards for two important reasons. Each participating nation had different regulations that it wanted to preserve and different approaches to developing and administering regulations. Some nations had centralized governments. These nations could easily adapt to global rules. But others such as the United States had a federal system, where regulations were made by federal, state, and local government authorities. Regulations at each level might distort trade and might have to be changed under global rules. Not surprisingly, policymakers at the local, state, and national levels protested that federalism could be undermined by economic internationalism.

To foster compromise among these different nations with diverse political systems, the GATT secretariat prepared a draft "Code for Preventing Technical Barriers to Trade." This draft code focused on product standards (the design and performance of a final product) and not on process standards (how goods are made). Moreover, this code was designed to fall outside the GATT. Nations did not have to adhere to it unless they agreed to. (It was one of several Tokyo Round Codes.) The director general of the GATT said that participants settled on this strategy for dealing with standards because GATT did not have the proper expertise to govern such standards. He noted technical regulations "were . . . not suitable for treatment and settlement under normal GATT rules."[10]

Thus, as early as the 1970s, the director general seemed to recognize that giving the GATT limited authority to regulate product standards could be controversial. However, in the United States, few citizens were aware of such negotiations, because, like all trade negotiations, the negotiations were conducted in secret, far away from the United States in Geneva, Switzerland (home of the GATT). Environmentalists, public health officials, and consumer advocates were not directly involved in the negotiations or the advisory process monitoring these negotiations.[11] Yet the Standards Code did discuss the nexus of trade and environment, stating that "no country should be prevented from taking measures necessary . . . for the protection . . . of the environment."[12] The negotiations were not often front page news (although they were covered on the business pages).

But trade negotiators kept members of Congress well informed on the negotiations related to NTBs. Staff at the Special Representative for Trade Negotiations prepared descriptions of the codes and lists of domestic statutes and regulations that might be affected. Congress sponsored hearings on the negotiations before the Tokyo Round was completed. The Finance Committee also made recommendations regarding changes to U.S. legislation so that the United States could adhere to these codes.[13]

Congress held hearings in 1979 on the completion of the Tokyo Round. In presenting the round to Congress, Special Trade Representative Strauss was modest in his assessment of how it might impact the U.S. economy: "Will it cure all our problems? Of course not. . . . It's the first chapter in a long, long book called trade."[14] The Office of the Special Trade Representative anticipated that the code on standards would be controversial, especially vis-à-vis federalism: the relationship between the federal government and the states.[15] But federalism was not the issue that bedeviled congressional review of the code. Witnesses focused on its inadequacy as well as whether it would lead to lower U.S. standards. Richard W. Roberts, the president of the National Foreign Trade Council (a business lobbying group supporting the GATT) worried about enforcing the codes at the local level because only central governments are bound by the code. He called for future negotiations, noting "the task of removing worldwide non-tariff barriers to trade begins rather than ends with the signing of the codes."[16] The Motor Vehicle Manufacturers Association agreed, calling for further harmonization of standards because they competed in a global marketplace for cars: "We hope that the Code will stimulate more active U.S. government participation (specifically by the National Highway Traffic Safety Administration and the Environmental

Protection Agency) in international harmonization. . . . The Code will provide a means by which manufacturers may seek the removal of standards that are unjustifiable trade barriers."[17]

One international union, the International Brotherhood of Electrical Workers (IBEW), saw the codes as the equivalent of international deregulation, believing other nations were not as vigilant about safety: "In the U.S., particularly with regard to electrification, the philosophy of the public has been one in which safety has always been paramount. In the European Community and in some other foreign countries, their philosophy . . . has not been one of the same penchant." The IBEW had strong reservations: "[If the bill becomes law] we will have subordinated the standards-making processes to the international arena. . . . We cannot avoid expressing serious concern about any process that holds a potential for subjecting U.S. standards to international review. . . . The product standards agreement states that developing countries may encounter special difficulty in the . . . application of technical regulations and standards . . . and then sets forth special and differential treatment for developing countries." The IBEW argued that such differential treatment would be an incentive to induce multinational corporations to establish more of their operations in developing countries, which could endanger U.S. workers and consumers. The IBEW concluded that if U.S. companies moved their manufacturing overseas and then exported to the United States, Congress should ensure that imported products conform to U.S. standards.[18]

Other witnesses complained that the Standards Code was confusing because its language was clear on product standards but unclear on process standards (how goods are made). The Office of the Special Trade Representative admitted "the code clearly covers such issues when product specifications are involved, but some countries, including the EC (European Community) believe the code does not apply to regulations on production processes." For example, the National Cattlemen's Association testified that the EC had unreasonable food safety requirements that impeded trade, such as annual physical examinations of all employees or separate facilities for meat cutting and packaging.[19] This issue of process standards would soon flare up regarding U.S. efforts to protect endangered species.

One witness linked labor standards (how workers are treated as they produce goods and services) to the standards code. David C. Williams, representing the Council on Hemispheric Affairs stated, "It is not fair international trade for our workers . . . when U.S. asbestos processors unwilling to meet the legal standards for occupational health and safety in the United States, transfer their 'dirty' operations across the border into Mexico. . . . And then they export their products back to the United States. . . . A study by the Congressional Office of Technology Assessment [warns that] U.S. pollution control laws and occupational health standards may soon lead to wholesale exodus in major industries as manufacturers move to avoid the large costs imposed here."[20] Williams did not see the contradiction inherent in his words. On the one hand, he argued it was unfair that U.S. workers might lose jobs because the United States gave their workers and the environment greater protections. On the other hand, he was unlikely to argue that such standards should be lowered in the United States to keep those jobs here. Yet Williams was also prescient; like the IBEW, he foresaw that companies would use trade as an excuse to press for deregulation.

Despite these concerns, the Trade Agreements Act of 1979 was approved overwhelmingly 395–7 in the House, 90–4 in the Senate. It became law on July 26, 1979.[21] The Standards Code, formally known as the Agreement on Technical Barriers to Trade (TBT) entered into force on January 1, 1980. According to the United States International Trade Commission (ITC), under the Code, "signatory governments are required to ensure that regulations and standards are not prepared, adopted, or applied in such a way as to obstruct international trade." The ITC acknowledged that the Code was a small step forward, but it did not foresee its implications for both democracy and global regulation. The ITC noted that the Code could further regulatory transparency. More important, the ITC noted that the standards code internationalized the regulatory process. To encourage further international agreement on standards, the TBT also "[sought] to further open national standards setting procedures to foreigners to comment on proposed standards."[22]

Some U.S. trade officials hoped that with the Code, the United States might encourage greater transparency of standards and increased acceptance of test data generated by other parties.[23] But the Standards Code did not achieve global acceptance. By 1987, it had only thirty-nine signatories (about 40 percent of GATT's membership at that time). According to the ITC, the United States was unable to find common ground internationally on how standards should be "*used as the basis for government regulation.*"[24] Increasingly, however, the United States and her trading partners would find the application of such standards "unfair." This notion of fairness would greatly color American trade policy during the presidency of Ronald Reagan.

Under Their Thumb?
How Changing World Circumstances Influenced Attitudes Toward Trade

Given America's diminished economic and political status, many voters in 1980 wanted a leader who could restore their confidence as well as America's economic and political vigor. They picked a former movie actor and governor of California, Ronald Reagan. Yet to many observers, Reagan was no better than Carter at fostering equitable economic growth. Reagan thought he had a three-pronged solution: get the government out of the economy as much as possible, cut taxes, and deregulate.

Reagan's chief advisers were influenced by "supply-side" economists. They believed that the most important precept of economic policy-making was to pay attention to how government policies affected individual decisions to work, save, and invest. They thought that sharp tax cuts would solve stagflation by stimulating both supply and demand.[25] However, according to economist David Calleo, "Reagan's massive rearmament made nonsense of his economic strategy." Soaring defense budgets, supply-side tax cuts, tight money, and a deep recession led to very large fiscal deficits. Heavy spending and tight money meant high interest rates and a strong appreciation of the dollar. This made it more difficult for firms to justify investment in people or new technologies because they had to ensure high returns. Higher capital costs also reduced U.S. firms' ability to invest in automation, research, innovation, and worker training.[26]

Americans were stuck in a vicious cycle. After almost two decades of rising inflation, Americans saved little. In the 1970s, they understood their money would be worth less tomorrow, so they spent it. They continued to spend, rather than save, even after inflation was defeated by the high interest rates of the early 1980s.[27] Some of that money went toward imports, thereby increasing the trade deficit and the need to borrow abroad to finance the standard of living Americans expected. At the same time, the overvalued dollar hurt American exports. Manufacturers and farmers cried out for protection.

President Reagan ignored these pleas for protection and continued to espouse market solutions to America's economic conundrum. The markets, however, were not yielding growth and prosperity for many voters in 1982. Unemployment hit some 10 percent, and more Americans were living in poverty (by 1982 some 34 million).[28] While many economists believed that tight money kept unemployment high, they argued about the role of other policies, such as high taxes, fiscal mismanagement, an overvalued dollar, extensive and excessive regulation, adversarial relations, or predatory trade practices. Although some 46 percent of Americans in 1985 thought our problems were of our own making, few corporate executives took responsibility and blamed themselves.[29] But others such as economist Pat Choate saw it differently, noting that "a kind of national sclerosis, a resistance to change" had set in, preventing Americans from adapting to these new challenges.[30]

In the late 1980s, the old world order abruptly ended. In 1989, East Germans repudiated their communist government. Soon young Germans scaled the Berlin Wall and dismantled the concrete block that had separated East and West Berlin since 1961. Communism collapsed throughout Eastern Europe, and the former Soviet Union was gradually dismantled.[31]

Some Americans openly wondered whether the American poor had paid an excessive price for America's cold war defense. They noted that money spent on defense could have been better invested in education, nutrition programs, public health programs, or infrastructure (such as roads and bridges). They worried about the costs of such excessive defense spending upon the competitiveness of American business. Moreover, they questioned the policies—especially trade and developing country debt policies furthered by the IMF, the World Bank, and the GATT—that helped encourage global economic growth and interdependence. After the Third World debt crisis broke in August 1982, debtor countries in Latin America and Asia were directed to "adjust" their economies, reduce their barriers to trade, and promote exports. These countries, which included Mexico, Brazil, Korea, Argentina, Thailand, and Indonesia, among others, increased their exports to the United States. The trade deficit reflected the success of these exporters as well as that of America's traditional trade partners in American markets. Although the United States remained a mighty exporter, the trade deficit in 1981 was $28 billion; by 1983, it was $67 billion, and by 1984, it was $112 billion.[32] However, to some observers, the trade deficit symbolized how American workers were paying a price for U.S. trade policies.

The greatest questioning about U.S. foreign economic policies seemed to come from individuals on the right. While many business leaders continued to support freer trade, some conservatives began to wonder whether freer trade had served American capitalism.[33] In the fall of 1990, the Heritage Foundation, America's leading conservative think tank, sponsored a discussion among conservatives who challenged freer trade and conservatives who touted it. The conference was funded by Grover Coors (an executive with Coors Beer and one of the founders and original funders of Heritage). Now that anticommunism had been toppled as the central rationale for American policy, the participants stumbled over finding common ground for the appropriate role of government in the economy.[34] Whereas many individuals of the left could justify an activist government in the domestic sphere (the social compact) and in the international sphere, those on the right have traditionally argued for limited government involvement in the economy. Conservatives concluded that the end of the cold war meant government should return to a limited role in both foreign policy and defense.

Meanwhile, some economic nationalists/conservatives developed a new overarching rationale for American policy. They noted that other nations (particularly Japan) were warlike in their quest for market share; they stressed that the United States often engaged in trade "wars" with such nations, and thus trade was equivalent to war. They saw Japan, France, and West Germany as interventionist, and they argued that the United States should also intervene to ensure that American markets favored American producers. In their view, true patriots support government intervention as a nationalist trade policy.[35] Alfred E. Eckes, historian and former Reagan administration international trade commissioner, was a leading theoretician of this view; he would educate politicians from Ronald Reagan to Pat Buchanan. He wrote, "The world is not peaceful. . . . Trade is not reciprocal. . . . Import dependence magnifies vulnerabilities and jeopardizes American independence in the same way that economic dependence did during the Napoleonic wars." Unless policymakers put America first, America would remain what Eckes called, "a third rate industrial power because of trade policy."[36] Other nationalists concurred with this view. To prove the point, they cited polls showing "Americans feel more menaced by Japan than the Soviet Union—72 to 20 percent."[37]

This perception of Japan as a threat seemed to grow throughout the 1980s, and among some Americans, it became an obsession. As example, the business best-seller lists were full of books showing what Americans could learn from Japan, as well as books bashing Japan for taking advantage of America and Americans.[38] In a very influential study, Clyde V. Prestowitz, former counselor to the secretary of commerce, described how Japan used intervention to gain domestic and foreign market share. Prestowitz established an influential think tank on trade (the Economic Strategy Institute) to put his ideas into action.[39] Author James Fallows also worried about Japan, but in contrast with Prestowitz he took a "glass is half full" approach. In a well-received book, he argued, "A society that is true to its own culture will usually have a healthy economy. It will have found the right way to elicit its people's best efforts." Fallows recommended that Americans tap "the resilience that has always distinguished this country. . . . Japan is strong because of its groups; America because of its individuals." Fallows concluded that we could recover our political and economic drive, not by becoming more like the Japanese, but by becoming "more like us."[40]

Others sought to explain America's decline by asking different questions. In a prize-winning book published in 1982, economist Mancur Olson found the answer in the power of vested special interest groups. He noted these groups (e.g., labor unions and steel industry executives) demanded and often received special benefits from government, despite the costs to society as a whole. Moreover, the general public rarely organized to challenge such special benefits. He concluded that the power of special interests made it difficult for American society to innovate and adapt.[41]

Economist Pat Choate also wrote about American political rigidity. Like Fallows, Choate was optimistic that the United States had the resilience to respond to the "powerful tide of creative destruction" engulfing America. But in his view, U.S. trade policy must also change to meet inevitable market change. Choate believed, "The starting point in devising such policies is to recognize the limits of both free trade and multinational negotiations. . . . The principal issue . . . is not free trade or protectionism but market access." He called for a more practical, more *results-oriented* trade policy because other nations, particularly Japan and Korea, "behaved" differently. The results should be assessed not by how well they seemed to adhere to GATT's rules but by how much market share American business captured overseas.[42]

Choate's results-oriented focus seemed to catch on as business leaders demanded that policymakers find new ways for Americans to win the market share they thought they deserved in countries such as Japan, Korea, Taiwan, and the European Community.[43] But many economists were uncomfortable with this approach. They believed that trade should be regulated by focusing on rules (such as those embodied in the GATT), rather than managed through agreements setting fixed quantitative trade outcomes (results). Moreover, these economists worried that such an approach would contradict America's commitment to free-market capitalism.[44]

While Choate focused on revamping trade policy, other analysts from America's left and right reexamined trade's effects on the American social compact. Alan Tonelson, a Princeton-educated writer and analyst (now at a nationalist think tank, the U.S. Business and Industrial Council) wrote frequently and eloquently about this issue. Early on Tonelson understood that trade transcended the traditional dividing lines between left and right, interventionists and isolationists, multilateralists and unilateralists. Others, such as political commentator Kevin Phillips and Harvard professor Robert Reich, saw global economic interdependence creating a new divide with business, professional and government elites on one side (the beneficiaries) and wage earners—especially unskilled workers—on the other (the losers).[45]

Although original in his assessment of the politics of trade, Tonelson did not posit an original solution. Protectionism such as tariffs and quotas were, in his view, a cheap way to maintain social stability. Citing figures from the Institute for International Economics (the most influential think tank on trade), he argued that protecting the national interest is relatively cheap "a mere $11 billion, a drop in the bucket in a $6 trillion economy." He argued that this frugal investment in protection could boost employment, preserve communities dependent on certain industries, and hold down welfare rolls.[46]

Tonelson's views were reminiscent of those expressed by skilled workers in the nineteenth century (see chapter 2). His solution, however, could keep the economy mired in the past. With protectionism, firms might get fat and lazy, stop innovating, or let quality and service decline. Moreover, consumers would likely pay the costs of such protection in the goods and services they buy. The only way to prevent the misuse of protectionism was for citizens to monitor it and for government officials to attach conditions and time frames when they grant such protection.

New and Old Ideas About Economics

During the 1980s, computers, robots, fiber optics, and new plastics revolutionized not just the products Americans used but how they produced these products. These new technologies and production processes inspired some economists to rethink old ideas about economics. In the late 1970s, James Brander and Barbara Spencer at the University of British Columbia challenged the bedrock principle of free trade: the theory of comparative advantage. Comparative advantage purports that nations trade because of their differences, because each nation naturally produces some things more efficiently than others. Each nation will gain more if it specializes in those goods and services it can produce at the lowest relative cost and at greatest efficiency, rather than producing everything it needs. But comparative advantage changes over time, reflecting changes in markets. The two economists argued that government could play a role in making market conditions change so that their producers were favored.[47] In reading these conclusions, some analysts purported that this model seemed to fit Japan's and Korea's approach to technology trade.

Although these ideas were controversial, mainstream economists could not ignore their implications. A young scholar named Paul Krugman took these ideas further. In articles and a book, he fleshed out "strategic trade theory." He noted that governments could and did intervene successfully in high-tech markets to create early advantages for their companies. Such governments were often successful because many markets for high-tech goods (such as computers) were oligopolistic (a few main suppliers).[48] In fact, twentieth-century U.S. history illuminated the success of that strategy, in sectors as diverse as aerospace, pharmaceuticals, and computer software, among others.

Another young scholar, Laura Tyson, focused on the policy implications of this theory. In a widely read book written for the Institute for International Economics, Tyson argued, "New developments in trade theory have demonstrated that under conditions of increasing returns, technological externalities, and imperfect competition, free trade is not necessarily . . . the best policy. Promotional and protectionist policies by foreign governments can harm domestic economic welfare by shifting industries . . . away from domestic producers. Conversely, comparable policies at home can improve domestic economic welfare, sometimes at the expense of other nations." Tyson (who would later serve as chair of President Clinton's Council of Economic Advisors) described herself as a cautious activist who favored limited use of such policies. She was cautious because she recognized that "the theoretical assumptions behind these demonstrations are very restricted." Multilateral rules would be, in her view, a better solution.[49] Thus, Tyson was noting that governments *could* intervene, not that governments *should* intervene. As the president's chief economic adviser from 1992 to 1996, she consistently argued against such intervention.

Strategic trade theory stimulated a wide-ranging discussion in academic circles. One observer noted that strategic trade theory "shook the field of neoclassical trade theory, and it may one day win Krugman a Nobel Prize." But Krugman, however much he may have wanted this honor, virtually disowned his own theory, noting trade is about mutually beneficial exchange, not competition. In many publications he chastised strategic trade theorists. This argument spilled over to Capitol Hill. Krugman, who became one of America's leading economists and a great popularizer of economics, worried that his ideas were hijacked by people who did not understand economics, such as members of Congress.[50] However, Krugman should not have been surprised that members of Congress wanted results. They had to answer to constituents who were hurting and believed that trade was to blame for their problems. Moreover, as noted earlier, the U.S. government had long intervened to create comparative advantage.

Turning Ideas into Action on Capitol Hill

Early in his administration President Reagan seemed relatively uninterested in trade policy. But on Capitol Hill, members of his own party demanded he pay attention. Senator John Heinz of Pennsylvania noted, "Our trade policy has turned the American dream into a nightmare of lost jobs, lost opportunities, and lost lives. . . . In 1973, it cost a worker 21 percent of his monthly pay for a mortgage on a new home, in 1984, . . . 44 percent."[51] Many of these workers Heinz was referring to had been Reagan Democrats, Democrats that had voted for Reagan. Heinz argued that America's steel and manufacturing towns were suffering and deserved protection.

In truth, the administration had provided some sector-specific protection. From 1981 to 1982, the United States induced a voluntary quota of 1.68 million Japanese cars (about 20 percent of the car market); increased protection on textiles; adopted quotas for sugar; and negotiated "voluntary" quotas with the European Community on steel products. These actions came on the heels of President Carter's use of orderly marketing agreements for shoes and televisions as well as steel protection.[52] But the administration constantly portrayed itself as devoted to laissez-faire, and administration officials actively discouraged congressional colleagues from seeking such protection.

As members of Congress debated whether it should provide such protection, new voices argued for more open markets. For example, service sector exporters (such as banks) and intellectual property rights holders (such as music, pharmaceutical, and software companies) wanted greater discipline in global trade rules. They argued that the administration should focus on new comprehensive trade talks that would include services and intellectual property protection. Moreover, by the 1980s, a wide range of manufacturers and farmers became aware of the costs of protection to their competitiveness. These farmers and manufacturers used imports of materials and machinery to produce commodities or goods. Moreover, these farmers and manufacturers worked hard to influence the policy-making process, hiring lawyers and lobbyists, joining associations and directing them to influence trade policy. At the same time, some emerging high-tech companies (such as Digital or Cray Computers) became more involved in the trade debate. Their Democratic representatives (often called "Atari Democrats") represented new growth regions of the United States such as Silicon Valley, Highway 128 in Massachusetts, and Austin, Texas. But many Democrats remained responsive to their traditional constituents, such as labor, who were calling for greater protection.[53]

However, by 1983, the Reagan administration became more responsive to protectionist entreaties. The world economy was experiencing slow or stagnant growth. At the same time, U.S. monetary policy facilitated imports. America's relatively high interest rates attracted foreign capital, which the nation needed to fund its high budget deficit. The dollar remained overvalued. From late 1978 to November 1982, the dollar rose by some 50 percent against the yen. This made Japanese imports relatively less expensive and made it harder for the United States to export. Throughout the 1980s, the U.S. trade balance was in deficit. As the United States imported more without increasing her exports, the trade deficit kept growing. The 1983 trade deficit of some $67 billion almost doubled in 1984 to $112 billion. By 1987, the trade deficit stood at $159 billion. As a share of gross domestic product (GDP), the trade deficit rose from .5 percent in 1980 to 2.5 percent in 1984; to a high of almost 3 percent in 1987, when it began to decline.[54]

The large trade deficit became a symbol of America's declining economic clout. Because many Americans thought that deficits per se were bad, they blamed trade for our economic problems.[55] Not surprisingly, protectionist ideas became more acceptable and visible.

Protectionism became more visible because of changes in procedure as a result of the 1974 Trade Act. Because the act authorized NTB negotiations, it could potentially affect a wide range of U.S. regulations, laws, and policies. As a result, a greater number of committees than those traditionally concerned with trade (e.g., finance, agriculture) held hearings on the impact of trade. Many members of these committees were devoted to economic internationalism and they spoke out. Trade scholar I. M. Destler surmised that between 1975 and 1980, congressional references to trade went up by 70 percent. Meanwhile, Congress made it easier to grant or receive protection. In 1974, Congress broadened the president's powers to take retaliatory actions and established a procedure by which individual citizens could complain to the U.S. government about trade and encourage the government to carry this complaint into international forums. In 1979, section 301 of U.S. trade law was strengthened to explicitly encourage the president to "enforce the rights of the United States under any trade agreement."[56] According to John H. Jackson, America's foremost legal scholar of the GATT, since the Trade Act of 1974 entered into force, "there have been approximately 31 formal complaints to the U.S. government under section 301." Thirty-one complaints may not sound like a lot but as Jackson noted, "U.S. law is possibly unique in that it provides a statutory right to citizens to petition their government, requires the government to respond within fixed time limits . . . and encourages the government to invoke the appropriate international procedure on its citizens' behalf."[57]

Protectionism was not only visible because it was easier to obtain as a result of changes in procedure. The new laws also required policymakers to respond forcefully to foreign barriers to trade. In 1984, Congress required the office of the USTR to issue reports documenting significant foreign barriers to U.S. exports. The report's main purpose was "to identify and analyze the most important barriers of major U.S. trading partners thus facilitating negotiations to reduce or eliminate such barriers." The report found some twelve different categories of trade barriers including standards, testing, labeling, and certification.[58]

These requirements in turn put greater pressure on the administration to act. In 1982, USTR William S. Brock warned that the forces supporting protection were stronger than at any other time in the postwar period. Some analysts stated that the USTR was increasingly receptive to limited protectionism in the hope that it would co-opt even greater protectionist rhetoric.[59] By granting some limited protection, the administration could say it was responding to the needs of specific sectors while maintaining the facade that it believed in open markets and laissez-faire. According to the Institute for International Economics, "the trend in the past five years has been . . . toward a net increase in protection—especially when defined broadly to include trade-distorting subsidies and government aids."[60]

Finally, protectionism became more visible because members of Congress were passing protectionist legislation. The 97th Congress (1981–82) had more than thirty bills calling for "reciprocity in foreign trade." These bills were written to ensure that U.S. producers found overseas access to foreign markets comparable to what foreign producers found in the United States. U.S. trade policy had long been based on reciprocity, but such reciprocity had traditionally been negotiated internationally. Yet these bills called for bilateral reciprocity. This meant that if Japanese steel producers had 12 percent of the U.S. market, U.S. producers should obtain approximately 12 percent of the Japanese market. Some of the bills demanded that if such access was not met, the United States could retaliate.[61] Economist William Cline feared that this strategy would totally negate previous trade commitments. He worried that if the United States acted unilaterally in this way, it could provoke foreign retaliation and force other countries to default on their existing trade commitments.[62] Moreover, it would undermine America's commitments under the GATT. Finally, this focus on market share results would imply major changes to U.S. economic policy. After all, the United States, as a supposedly capitalist nation, believed in the invisible hand of markets, rather than in the visible hand of policymakers.

Why were so many members of Congress willing to abandon multilateral and rules-based approaches to trade? Some members, such as John Danforth and John R. Heinz, seemed to believe that other nations had not really fully complied with their trade obligations. Moreover, they thought that the United States had led trade liberalization while other nations still had numerous restrictions. Senators John Danforth and John R. Heinz were key proponents of this approach. Their proposals also built on strategic trade theory, on the idea that some nations had created unfair advantages for their high-tech industries by intervention (such as subsidies).[63] So the only solution was to unilaterally use U.S. power to achieve market access.[64]

Other members of Congress were so focused on market share results that in 1984 Congress passed a general trade bill with a global import ceiling reflecting the "sense of Congress." Although this bill was not mandated, Congress had now signaled its growing receptivity to economic nationalism. Trade liberalization was no longer the best or most appropriate trade policy.[65] The public seemed to share these views. In a 1983 poll, Americans were asked which countries subsidized their trade industries; Japan was most frequently cited at 45 percent. In 1987, some 50 percent of those polled by Yankelovich thought the Japanese engaged in unfair trade practices.[66] Polling data revealed that Americans wondered if our nation's efforts on behalf of freer trade benefited American workers and communities as much as their counterparts in other nations such as Japan, West Germany, and Korea.[67] According to the Public Agenda Foundation, there was a widely held conviction that "something is wrong" with the U.S. economy, a "real fear that the country is skating on thin ice and that . . . we have lost something crucial to our success as a nation."[68]

Clearly the economic and political pressures stemming from America's economic problems would not "let Reagan be Reagan" and allow him to remain true to his self-described noninterventionist impulses. On September 23, 1985, the administration announced it would lower the dollar, combat unfair trade practices, and find ways to renew growth in developing countries. Talking the new language of trade, the president explicitly noted that "not just free trade, but free and fair trade is the major policy goal of the United States." This was a major policy change. The president made it clear that he would occasionally abandon laissez-faire in the interest of supporting American producers. Moreover, the president noted that his administration was investigating certain practices by Brazil, South Korea, and Japan. This was the first time that the administration initiated such complaints, rather than waiting for public complaints.[69] Finally, the president expressed his willingness to pass legislation promoting free and fair open markets. However, his notion of fairness had to do with promoting openness among our trading partners. It had nothing to do with promoting equity for workers.

The president's strategy of providing some limited protection and adopting protectionist rhetoric helped slow demands for protectionist trade legislation on Capitol Hill.[70] However, the president recognized that he needed a broader approach to co-opt protectionist and interventionist rhetoric in Congress and even in the business community. His advisers recommended that he examine the broad swath of policies from trade to fiscal policy to regulation that could affect American competitiveness.[71] With great reluctance, Reagan permitted his administration to study how the federal government could help American business regain its "competitiveness."

Competitiveness: A Rubric for Protectionism? Or a Rationale for Deregulation?

The Reagan administration was behind the curve in assessing the competitiveness of U.S. business. Academics and even members of Congress had worried about declining wages and productivity since the 1970s.[72] These men and women knew that ultimately a nation's competitiveness depends on how productively the private sector uses resources. But some representatives, such as Senator Lloyd Bentsen, also understood that government has an important role in encouraging productivity. The right mix of public policies can encourage investment and growth and help ensure a rising standard of living for more of its citizens.[73] These legislators made sure that the Trade Act of 1979 required a review of the U.S. competitiveness position, with particular attention to how government policies might be improved.[74] As a result, in 1980, Congress received a detailed interagency review of changes in U.S. competitiveness. But "competitiveness" did not become a issue until the early 1980s, when business, academic, and labor leaders began to call for a coordinated program to examine whether U.S. government policies could better facilitate American firms competing both domestically and abroad.[75] By the mid-1980s, it seemed that everyone in Washington thought America was an economic dinosaur, and making America competitive became a national obsession.[76]

On June 28, 1983, President Reagan issued Executive Order 12428 setting up the President's Commission on Industrial Competitiveness. The commission was to be composed of members with "particular knowledge and expertise concerning the technological factors affecting the ability of the United States firms to meet international competition at home and abroad." On August 4, he announced the commission's leadership and members. He noted that by establishing this commission, chaired by John A. Young, the president of Hewlett-Packard Co., "we reaffirm this administration's commitment to making sure this government will be a help, not a stumbling block, as U.S. industries compete." He called on the commission to identify the problems and opportunities for the private sector to innovate and "to recommend policy changes at all levels of government to improve the private sector's ability to compete . . . and create opportunities for American workers."[77]

The thirty members of the commission included seventeen corporate CEOs or company presidents, three senior vice presidents; officials from two unions—the AFL-CIO and the UAW; two partners of law/consulting firms; four academics; and two government officials (the New York state comptroller and the science adviser to the president). The members were divided into five groups to discuss five areas: the strategic framework for dealing with international competition; research, development, and manufacturing; capital resources; human resources; and international trade and marketing. The strategy group's first task was to develop a reasonable definition of national (as opposed to corporate competitiveness). The members defined it as the degree to which a nation can, under free and fair market conditions, produce goods and services that meet the test of international markets while expanding the real incomes of its citizens.[78]

Members of the commission agreed that competitiveness is the basis for a nation's standard of living, which in turn is fundamentally determined by the productivity of U.S. industry. From 1973 to 1983, America's average annual rate of productivity growth was roughly one-seventh of its major trading partners. Moreover, the commission members stressed that competitiveness is "fundamental to the expansion of employment opportunities and a nation's ability to meet its international obligations. . . . However, without free and fair market conditions, the fruits of productivity do not flow to the nations or sectors that achieve it."[79]

As the president's commission proceeded, other groups and individuals also began to discuss these issues. They included the Business Higher Education Forum (a study/lobbying group of big business and academic groups); the Business Roundtable (a study/lobbying group of Fortune 500 companies); think tanks such as the Brookings Institution; and prestigious academic institutions such as the Harvard Business School. Almost all the studies published by these groups noted that government regulations hindered U.S. competitiveness.[80] The president's commission encouraged these groups to focus on such policies.

The commission emphasized that the government's role in the economy is "to encourage private initiative by removing barriers and providing incentives."[81] Not surprisingly, the commission noted that regulations were a key barrier to competitiveness. It said that many regulations "emerged in an ad hoc way and have frequently sacrificed competitiveness in the pursuit of other goals."[82] The commission recommended that the United States should "modify or eliminate legislative or regulatory mechanisms that are not based on a global market definition or outlook." In short, the commission was arguing that deregulation could help achieve competitiveness.

The commission noted that under Executive Order 12291, "regulatory agencies are required to submit an impact analysis statement for proposed regulatory actions which explains how the benefits of the proposed action outweigh its costs . . . and the burden the proposed action will impose on the public."[83] However, "regulations raise costs and lengthen development times . . . and raise prices. . . . The issue is not whether regulations should exist. . . . The public supports the concept of regulation. . . . Existing regulations should be reexamined and the full consequences of potential new regulations should be reexamined . . . to balance the needs of science and technology with concerns about health, safety, and the environment."[84] To justify its recommendations, the commission noted that "in recent years a large number of welldocumented economic and policy studies point to . . . the costs to the society of so much regulation . . . [that] could far exceed the apparent benefits. . . . A fundamental problem in our regulatory process is the failure to uniformly and properly balance safety concerns with the needs for innovation and industrial competitiveness."[85]

According to the commission, "A national consensus has emerged that inept federal regulation . . . has become more of a hindrance to progress than a solution. . . . In fact the last four Administrations have reviewed the problem. . . . Little has been achieved, however, in the review of existing health, safety and environmental regulations as they affect the innovation of new products."[86]

In making its case, the commission frequently cited the economic costs of such regulations. For example, the commission noted that the United States had taken the lead in developing genetically engineered products, such as disease resistant plants and microbes that clean up oil spills. Such genetically modified products could have great economic potential. However, the commission warned that the EPA could thwart that potential by its desire to regulate these organisms, thereby stifling innovation as well as exports.[87] The commission did not take the view that regulation might assuage a public that might be reluctant to accept such genetically modified innovation. The commission also focused on chemicals, which were "affected by an array of federal regulations." The commission noted that at least four studies have concluded these regulations hurt innovation, create business uncertainty, and delay production.[88] Finally, the commission spoke out on regulations of pesticides and pharmaceuticals: "Evidence clearly supports the proposition that health, safety, and environmental regulation . . . is a negative factor in . . . technological innovation. Chemicals, pesticides and pharmaceuticals are examples where the impact is particularly severe." The commission also noted that this was compelling chemical and pharmaceutical manufacturers to move their production overseas, unless regulations were eased.[89] Finally, the commission recommended: "Federal regulatory agencies must be required to assess the effects of their rules on a continuous basis. . . . A key goal for the new Administration should be to put review of health, safety, or environmental regulations . . . on the national agenda in 1985. . . . No health, safety or environmental regulation of new products should seek or purport to eliminate every possible risk."[90] To the commission, the United States was regulating in an impractical manner. The commission's solution was to place hurdles upon the regulatory process and encourage deregulation.

The president's report on competitiveness received widespread publicity when it was issued in 1985. The chairman of the commission, John Young, was determined that these ideas be debated and hopefully brought into action through a dialogue between representatives of business, labor, academia, and the American public and their elected representatives. As the work of the commission progressed, several groups were organized to lobby Congress on these issues. They included the Council on Competitiveness (in which John Young actively participated); Coretech (focused on tax credits for research and development); and the Congressional Leadership Institute (formed to assist the Congressional Competitiveness Caucus in reviewing policy recommendations). Existing groups such as the Business Roundtable, the National Association of Manufacturers (which had long called for less regulation), and the Competitiveness Enterprise Institute also tried to put the commission's recommendations into action.[91] Working together and separately, these groups made sure that the competitiveness agenda became public policy.[92]

The competitiveness groups differed in their priorities, strategies, and the importance in which they viewed deregulation and new approaches to trade policy. However, these groups were dominated by business executives who were often members of several of the groups. In general, environmental, religious, and community groups were not members of these organizations. Labor unions were, however, well-represented on the Council on Competitiveness, the most prominent of these groups.[93]

It was interesting that labor union leaders jumped on the competitiveness bandwagon. On the one hand, competitiveness could become a rubric for increased aid to business or increased protection, and workers could benefit from such taxpayer largesse. However, competitiveness also became a rubric for downsizing and for threatening workers in the United States (and other industrialized nations).[94]

Given the collective clout of these business and labor players, it's not surprising that Washington paid attention to competitiveness. The House Ways and Means Committee noted "national concern has focused on America's diminishing competitiveness." Speaker Jim Wright asserted early in this session of Congress that competitiveness "may be the dominant economic issue of the remaining years of the 20th century." President Reagan pledged in his 1985 State of the Union address that his administration would do "everything possible to promote America's ability to compete."[95] When Congress finally passed a trade bill authorizing U.S. participation in the next round of trade negotiations, the bill was called The Omnibus Trade and Competitiveness Act.[96]

Competitiveness and the new attitudes toward trade stimulated an environment supportive of putting America first—in trade policies as well as regulatory policies. But business leaders were not the only individuals turning to nationalistic solutions to global problems. In this period, support for economic nationalism grew among conservatives, libertarians (even those who advocated no government intervention in the economy), and especially America's more radical right (isolationist/militia movements). A newspaper called *The Spotlight* began to focus on the "new world order" of economic internationalist companies and institutions and called on its readers to resist it.[97]

At the same time, some groups on the left also began to focus on global governance. They noted that despite increased trade, the world still suffered from poverty, disease, illiteracy, inequality, and other ills. As they looked around the United States, they observed that many Americans were poor, sick, hungry, unemployed, or underemployed. Many individuals on the left concluded that trade agreements were not part of the solution to these important social problems.

The Left Turns Away from Economic Internationalism

The 1980s were the worst of times (and to a lesser degree the best of times) for public interest groups on the left. Environmentalists and social activists saw deregulation in many Reagan era policies. They were especially concerned that the Reagan administration wanted to reverse many environmental, social, and consumer policies that had been put in place in the 1970s and early 1980s. During his first years in office, President Reagan used the budget deficit as a rationale to cut a wide range of social programs from school lunch programs to foreign aid, as well as regulatory staff and activities. He also used regulatory oversight to thwart new regulation and to slow down the pace of regulation. These groups found that they could use their opposition to the Reagan administration's actions to raise money to oppose his administration and set up Washington offices.[98]

Environmentalists and consumer activists were also concerned by the president's international activities. President Carter had made international environmental protection a priority. Just before he left office, President Carter issued Executive Order 12264, restricting the export of agricultural chemicals, pharmaceutical products, and assorted synthetic commodities too dangerous to be freely sold or distributed in the United States. Carter wanted to ensure that U.S. producers did not then dump these products on overseas markets. But the Reagan administration took the position that the United States should not extend its environmental policies and regulation to other nations through export controls. It rescinded and abandoned the Carter administration's focus on global environmental protection. The Reagan administration also financed exports of cigarettes and pesticides banned in the United States.[99] Moreover, when the issue of international trade in hazardous materials came before the General Assembly of the United Nations in January 1983, the United States cast the one dissenting vote; all the other nations in the General Assembly voted for the measure 146–1. The Reagan administration also obstructed Organization for Economic Cooperation (OECD) negotiations on regulation of toxic substances in international commerce.[100] To environmentalists, these international actions proved their worst fears: the Reagan administration was not only not interested in global public health, but it was no longer committed to improving the global commons.

Some environmentalists decided that they must build a stronger international environmental movement to ensure environmental protection. Others, however, decided they must focus their activities on defending America's social and environmental regulations on the home front. In an influential tract, economist Herman Daly and theologian John Cobb Jr. wrote, "There are . . . good reasons to favor a nationalist policy that reduces free trade . . . and interdependence. . . . Once community is devalued in the name of free trade, there will be a generalized competing away of community standards." The two men concluded that because Social Security, Medicare, and conservation standards raise costs like high wages, they will not survive the "standards-lowering competition" that is free trade.[101]

These ideas gradually spread among social activists in the United States and around the world, leading many activists to rethink their views about international organizations. Some environmentalists began to argue that the World Bank and the International Monetary Fund had encouraged environmental degradation in the interests of rapid development. They noted that these institutions had made only limited progress in alleviating poverty. In some nations, budgets were balanced and inflation was reined in at the expense of the poor and working class. Many on the left eventually concluded that the Bretton Woods Institutions had not fostered development or macroeconomic stability, but instead simply made these nations safe for big business.[102]

At the same time, other Americans argued that policymakers had spent too much money overseas while ignoring America's problems of growing crime, unemployment, and stagnant economic growth. Some communitarians, for example, called for a society based on values of social stability and justice rather than simply on market efficiency. They believed that economic internationalism (and in particular free trade) threatened the social contract between American workers and American business, where workers were rewarded with relatively high wages for sustaining labor peace and high productivity. Some analysts, such as Michael Lind, even saw trade and immigration as tools used by the overclass to keep the native-born working classes in its place. They noted trade's (and immigration's) impact on many minority communities, perpetuating crime, poverty, and drug abuse, as well as environmental degradation.[103] Beginning in the late 1980s and 1990s, these ideas influenced many internationalists who participated in and funded NGOs such as environmental, religious, and population groups in the United States and abroad.

Some Americans of the left adopted a simplistic negative view of trade policy—that it was by and for corporate interests. In 1990, Ralph Nader wrote, "[Although] there are many good liberalizations of trade in the GATT negotiations . . . there is a citizen vacuum that is being filled by corporate schemes. Take back this vacuum."[104] In 1990, the senior editor of the magazine *Greenpeace* warned that "free trade as defined by corporate interests" will take away America's authority to protect the environment, food, labor, and small business, and put it "in the hands of government-appointed trade ministers, multinational corporations and obscure international agencies."[105] The essayist Wendell Berry asserted, "Pressure for these revisions has come solely from . . . corporations. . . . There certainly has been no popular movement in favor of them—not in any country." These views were seconded by noted Canadian novelist Margaret Atwood and Mexican scholar Jorge G. Castañeda, among others.[106] In Canada, England, Germany, and France (and to a lesser degree in Australia), the critique of freer trade was part of a larger critique of capitalist democracy. In the United States, however, capitalism was a sacred tenet. It could only be attacked on the margins by attacking the philosophy of freer trade and the mechanism of trade agreements.[107]

Like their counterparts on the right, many Americans on the left feared that American sovereignty could be undermined by the Reagan administration's approach to economic internationalism. The same administration, under the rubric of competitiveness, had rolled back regulations that controlled capitalism and moved some of these regulations to international bureaucracies or business decision makers unaccountable to the people. They believed that only in a national democratic system could individuals ensure that government serves as a counterweight to business excess. On the right, however, many individuals seemed to believe that global governance by international organizations such as the GATT was unconstitutional. Beginning in the 1980s, these groups occasionally came together to oppose internationalist initiatives and institutions. Despite their different views about what government should do, members of these groups began to find common ground in the belief that American values could best be preserved by retreating from internationalism.

The end of the cold war and America's economic stagnation revealed a great schism as to what our economic policies should be and what our international role could be. But in problems came opportunity, and protectionists, economic nationalists, and others tried to forge new trade ideas. Many of these ideas had a significant impact on legislation and the thinking of a wide variety of Americans. These ideas also changed how protectionism was implemented.[108] Some individuals called for strategic or results-oriented trade policy. Others justified nationalistic trade policies as a means of preserving communities or opportunities for Americans.

America's economic problems also encouraged new rationales for deregulation. The Tokyo Round created codes to govern the use of regulatory standards. But this was not enough for some business leaders who wanted more efforts to reduce the costs of innovation. They used "competitiveness" as a rubric to rail against government regulations at the same time that individuals on the left and right alleged that trade with other nations would lower U.S. regulatory standards. Concerns about such standards were a key part of the debates over NAFTA and the Uruguay Round of the GATT. These debates are discussed in the chapters that follow.