

Taking Trade to the Streets

Taking Trade to the Streets

THE LOST HISTORY OF PUBLIC EFFORTS
TO SHAPE GLOBALIZATION

Susan Ariel Aaronson

With Forewords by
Pat Choate *and* I. M. Destler

Ann Arbor

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Foreword

ONE OF THE IRONIES surrounding most contemporary policy debates is the reportage seems to concentrate more on personalities and tactics than on the substance of the issue. Consequently, the effects of any policy shifts increasingly seem to come as a surprise to the general public, and, when noticed, are too often viewed as isolated events rather than as part of larger structural change.

Certainly, the ongoing debates and changes in U.S. trade policy fit this description. For example, the fights to ratify the North American Free Trade Agreement (NAFTA) and the Uruguay GATT Agreement were largely portrayed at the time as a battle between the forces of good and bad. The forces of good were the free traders, led by newly elected President Bill Clinton. The bad were the protectionists, led by a coalition of national figures that included Ralph Nader, Patrick Buchanan, Jerry Brown, and Ross Perot—what White House spinners called the Halloween Coalition.

Of course, much can be lost in such radical simplification, and it was. Most important, the longer-term dimensions of the underlying structural shift—what has come to be known as globalization—tend to be unanalyzed with vital parts unnoticed. And often the result is costly indeed; for example, the \$100 billion bailout of the Mexican economy in the mid-1990s, the ongoing loss of key sectors of the U.S. economy such as steel and textiles, and the recurring need for public bailouts of U.S. banks, to name only three.

Yet even where debate and discussion do occur, even between economists and scholars, epigrams and clichés dominate. In a perverse sense, those who study the topic the most seem trapped the deepest in the ideology and techniques they acquired in their early academic training. Perhaps this educated incapacity is normal. After all, the Marxist economists in the Soviet Union and East Germany were offering their orthodoxy even as those economies and societies were falling apart.

But for the interested lay person and public officials, this debate via epigrams produces more confusion than information. Most economists, for instance, argue that a large and growing portion of finance, commerce, and communication is increasingly unaffected by national borders. That is true. But the implication is that somehow the world is headed to a homogenized economy. That is not true. The differences between nations, their cultures, and their institutions are real and often so fundamental as to be insurmountable without a dangerous political revolution.

In the 1990s, a clever attempt was made to reconcile that paradox of economic globalization versus national differences. The resultant creation was the World Trade Organization (WTO)—a new international body that provides a forum for the negotiation of global trade rules, their administration, and their final judicial review. The creators of the WTO also endowed the organization with the authority to confront the domestic policies, practices, and regulations of member nations that might affect trade. With this, a new era of global regulation was born.

Brought into being in 1995 and located in Geneva, Switzerland, the WTO is at a nascent stage where its powers are only partially defined.

At a time when dozens of homeless transnational corporations with annual sales greater than the gross domestic products of all but a handful of nations are essentially unregulated, perhaps a strong, global regulatory body is necessary. The primary need for such a body may be more to ensure that these corporations act responsibly in their global activities than to protect the parochial economic interests of any single country. But that debate awaits.

In *Taking Trade to the Streets: The Lost History of Public Efforts to Shape Globalization*, Susan Aaronson provides a clear, cogent, thoughtful context for that discussion.

As she discusses in her early chapters, the political fight over terms of trade is as American as apple pie. It stretches from the Boston Tea Party—when American colonials dumped British tea into the harbor to protest English import taxes—to today's street demonstrations against the World Trade Organization.

Susan Aaronson tackles the clichéd nature of the current debate, using as a starting point the late Governor Adlai E. Stevenson's observation that trade policy is "one field where the greatest need is for fresh clichés." Then, she goes behind the labels of "free trade" and "protectionism" to describe the substantive, multilayered positions of the various participants; most notably those involved in the NAFTA and WTO ratification battles of the 1990s. It is a good history, presented in

crisp writing that moves along, providing a factual overview that is understandable to the lay reader.

The publication of this book is timely, coming at the end of the Clinton administration and the beginning of George W. Bush's. The era of vast trade negotiations between nations that characterized the Clinton years may well be over. The WTO has been created to shepherd that process for the future. Those future negotiations are likely to be less seismic than what came during the 1990s.

Rather, the big changes that await are likely to be those of a regulatory nature, as the author points out. Already the power of nations to set their own rules is being challenged by the WTO. Further, the WTO may well have the mandate to regulate global business, something that none of its individual members seems able to do effectively. Inevitably, demands will be made on that body to perform that function. And if that road is taken, the world enters an entirely new and uncharted phase of globalization.

With *Taking Trade to the Streets*, Susan Aaronson makes a major contribution to the understanding of where the United States, indeed the world, is in this heretofore largely undocumented evolution.

Pat Choate
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Director, Manufacturing Policy Project,
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Foreword

FOR TWO-THIRDS OF a century now, the United States has pursued a policy of reducing barriers to international trade. In the FDR years, we did so by negotiating bilateral deals with our principal trading partners. With the signing of the General Agreement on Tariffs and Trade (GATT) in the late 1940s, the means shifted to multilateral negotiations—first primarily with Europeans, but increasingly with nations around the globe. But the basic structure of bargaining remained—we sought reductions in foreign barriers to our products, and lowered our own trade barriers in exchange. Social issues—labor practices, environmental policies, human rights—were largely excluded from the discussion.

Trade negotiators and their business constituents came to regard this as the natural state of affairs. GATT talks were dominated by trade professionals, who sought concessions of the greatest commercial value to their nations' producers. And the negotiating efficacy of such a focus seemed undeniable: It resulted in the reduction of import barriers to a fraction of former levels and an explosion of global commerce. But as Susan Aaronson tells us, there has always been controversy about trade's social impact. With the rapid growth of that trade—not just in absolute terms, but as a share of the American economy—it is hardly surprising that social concerns should grow as well.

Moreover, today's debate over the impact of globalization parallels that over a nationalizing U.S. economy that became heated a century ago. Historians like my father¹ told how the excesses of late-nineteenth-century American capitalism gave rise to a robust reform movement, and how over the decades that movement led to a social compact that seeks to maintain the benefits of free markets while protecting other widely shared societal values.

¹ See Chester McArthur Destler, *American Radicalism 1865–1901* (New London, Connecticut College, 1946; Quadrangle Books, 1966).

International trade affects these values. Its expansion seems, to many eyes, to undermine economic security and threaten the social compact. It is therefore substantively rational that critics seek international accords to protect and reinforce labor and environmental standards. It is politically rational that they seek the leverage of ongoing trade negotiations, under the auspices of the World Trade Organization, to advance this cause. The result, however, has been to throw the trade establishment into disarray, and to replace the longstanding American liberal-trade consensus with a political stalemate.

Because she is a historian, Susan Aaronson recognizes that these issues have ample precedent. And just as the business community had to accept New Deal regulation in the 1930s and the consumer and environmental legislation of the 1960s and 1970s, the trade community must help fashion constructive responses to today's social concerns. Aaronson's book helps us find ways to do so.

I. M. Destler

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Preface

AT FIRST GLANCE, the December 16, 1773, meeting in Old South Church in Boston and the November 26, 1999, teach-in in Seattle's Benaroya Symphony Hall have little in common. More than five thousand colonists, about a third of Boston's population, crowded into Old South Church. About half that number crowded into the twenty-five-hundred-seat Symphony Hall. The participants at both meetings focused on trade. The colonists wanted to shape the mother country's policies to increase trade, while most attendees at the teach-in focused on the costs of trade and globalization. The colonists learned of the December meeting through pamphlets, posters, and by word of mouth; the trade agreement critics who packed Symphony Hall learned about the meeting through the Internet, the press, E-mail, and by mailed invitations. Moreover, citizens around the wired world could watch the proceedings through the modern miracle of Web-casting.

The colonists argued over what to do about three ships carrying tea from the East Indies. They liked their tea—it had long been an important component of the Anglo-American diet. But in 1773, the British Parliament passed an act designed to save the East India Company from bankruptcy. The law required duties to be paid on the tea and returned to the company. It was one of a series of taxes that were placed on and then removed from the colonists. The colonists resented the tax as unfair as well as resented their lack of control over the home country's policies.

The colonists were deeply divided as to what to do about Britain's trade policies. While some colonists said that Governor Thomas Hutchinson should send the tea back to England, others worried about confronting the British. Still others in the back of the room hinted at a more aggressive strategy. They warned that sometime soon, the "Mohawks" (colonists disguised as Indians) would come and make Boston Harbor smell like, look like, and taste like a teapot. In their view, this violent strategy of harbor and street protests were necessary because Britain had undermined the

colonists' democratic rights by empowering one corporation at the expense of the colonists.

The individuals who came to the December 1999 teach-in, in contrast, did not come from one city or nation. They came from India, Canada, Malaysia, Thailand, Chile, the Philippines, the United States, and even Great Britain. Almost all the speakers noted that globalization, which they described as "corporate-led" and directed, had hurt the planet, undermined democratically elected governments, and had a regressive effect on human rights and workers' rights. They condemned the policies of national governments and international organizations such as the World Trade Organization (WTO), the World Bank, and the International Monetary Fund. Most of the participants thought nonviolent street protests were an appropriate strategy to deal with such instruments of corporate-led globalization.

Although miles of distance, new technologies, and 226 years separated the two meetings, the participants in both meetings tackled the same topic—how trade and globalization affected other important policy goals—whether democracy, sovereignty, protecting the environment, promoting human rights, or encouraging equitable economic growth. I believe a review of the history of that debate may provide scholars with additional insights into how the public, in concert with policymakers, may best govern the global economy.

This book highlights the "lost" history of citizen attempts to influence how globalization is regulated—whether through trade agreements or other regulatory policies. This history is not really lost, but it seems to have been forgotten by policymakers and even the activists themselves. Thus, this book reminds us that this debate was central to the drafting of the U.S. Constitution, the development of a national economy in the late nineteenth century, and even the development of the global system of rules that govern trade and investment.

I will show that except for biotechnology, little that is new has emerged in the debate over globalization. *Globalization* can be defined as the growing social, political, and economic integration of the United States with other nations in the world. The United States is increasingly linked to other nations because of deliberate policy choices (such as trade and investment liberalization) and technological changes (whether satellites, the Internet, refrigeration, or supersonic jets) that bridge distance and time. Every day Americans see evidence of globalization, whether our headlines blare the spread of West Nile Virus (new to the North American continent) or the new German American multinational, the Daimler Chrysler company. I focus, in particular, on

trade and describe how so many citizens have come to see trade agreements (and trade policy) as threatening national systems of social and environmental regulations—the so-called social compact. Using the United States as a case study, I examine the history of *trade agreement critics*, focusing particular attention on the North American Free Trade Agreement (NAFTA) between Canada, Mexico, and the United States and the Tokyo and Uruguay Rounds of trade liberalization under the General Agreement on Tariffs and Trade (GATT).

Trade agreements regulate how nations may trade and how they may protect their citizens, consumers and producers. They regulate tools of protection, such as tariffs or exchange controls. But beginning in 1974, with the Tokyo Round, they also began to regulate the use of nontariff barriers (NTBs) such as subsidies and national procurement and health and regulatory standards, which can also distort market conditions among domestic and foreign producers. This expanding purview of trade agreements has led critics to argue that trade agreements are deregulatory. But in their criticism, they also seem to be saying that trade agreements don't regulate effectively or don't regulate enough.

The colonists argued that the British Parliament was willing to tax its colonists to restore the British East India company to health. Many trade critics today argue that trade agreements such as the WTO have transferred power from the people to global corporations. Yet these same critics have devoted little attention to providing incentives and disincentives to ensure that global corporations behave responsibly as they produce goods and services around the world.

THIS BOOK MIGHT have taken 226 years if I did not have a patient family. I am so grateful to my husband, Doug Wham; my parents, Professors Shirley and Sheldon Aaronson; and my dear friend Professor Bill Becker, who helped me write and improve each draft. Many activists and scholars helped make this a better book: They include Atsuko Abe, Eugene Gholz, Steve Clemons, Ellen Frost, Dan Gardner, Tome Zeiler, Al Eckes, Mark Ritchie, Kimberly Ann Elliot, Steve Charnovitz, Bob Litan, Amy Porges, I. M. Destler, Debbie Lamb, Mira Wilkins, Ambassador Anthony Quainton, Ambassador J. Robert Schaezel, Lori Wallach, Valerie Plompis, and my generous colleagues at the University of North Texas, George Mason University, the Brookings Institution, and the National Policy Association. I am grateful to Lance Lindblom, formerly of the Ford Foundation; Bernard Wasow, formerly of the Ford Foundation and now with the Century

Foundation; and Peter Weitz, formerly of the German Marshall Fund. Peter died as I revised this book; I miss him.

I am forever indebted to Pat Choate and Mac Destler—two men who have had a major impact on trade policy. Their views are much discussed in this book, and they both were kind to contribute forewords to this book.

Reporters Nancy Dunne, Paul Magnusson, and Alan Freedman provided valuable feedback on my conclusions. Greg Allen of National Public Radio helped me discover how to explain this lost history in ninety-second radio spots. I had the world's best editor, Ellen McCarthy, who was such a faithful believer in this book and a true friend. But I dedicate it to Allegra Ann Wham and Ethan Aaron Wham.

Susan Ariel Aaronson

Acronyms

| | |
|---------|--|
| AFL-CIO | American Federation of Labor and Congress of Industrial Organizations; the nation's largest labor organization |
| FTA | Canada/United States Free Trade Agreement |
| GAO | General Accounting Office |
| GATT | General Agreement on Tariffs and Trade |
| GPO | U.S. Government Printing Office |
| IATP | Institute for Agriculture and Trade Policy |
| ITC | International Trade Commission |
| MFN | most favored nation (normal trade privileges) |
| NGOs | nongovernmental organizations |
| NTBs | nontariff barriers such as procurement regulations and health and safety standards |
| RTAA | Reciprocal Trade Agreements Act of 1934 |
| S&P | sanitary (relating to humans) and phytosanitary (relating to plants) regulations |
| TBT | Tokyo Round code relating to technical barriers to trade |
| USTR | U.S. Trade Representative |
| WTO | World Trade Organization |

Glossary

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| <i>comparative advantage</i> | production of items in which a country's or company's relative efficiency is greatest compared with other countries or companies. A firm or country should concentrate production on items in which it has the greatest relative efficiency. |
| <i>production standards</i> | rules governing what is produced, affecting the design, physical characteristics, or safety of a product or service. |
| <i>process standards</i> | rules governing how goods are produced. |
| <i>social compact</i> | the norms that shape and constrain the domestic environment in which goods and services are produced. |
| <i>unfair traders</i> | countries that don't play by the shared rules governing trade. |

