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GRISWOLD: Trade deals no threat to U.S. sovereignty

By Daniel Griswold

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ANALYSIS/OPINION:

One of the many question marks hanging over the four score and seven House Republican freshmen is how they will vote on free trade. The newly elected members, most of them with ties to the tea-party movement, may be asked to vote in coming months on pending trade agreements with South Korea, Colombia and Panama.

At first glance, the small-government believers among them should be sympathetic to commercial agreements that lower tariffs, which are, after all, government taxes on imports, taxes specifically aimed at curbing free-market competition. Free trade is a basic tenant of market economics going back to Adam Smith.

The early signs are positive that most of the incoming Republican class gets it on trade. In contrast to the Democratic line, most of the incoming Republican freshmen refused to demonize trade in their campaigns. Fully three-quarters of the newcomers — a total of 66 at last count — signed a letter to President Obama this week expressing their strong support for expanding trade and their readiness to work with the president to pass all three trade agreements “within the next six months.”

So why would nearly a quarter of Republican freshmen refuse to sign a public letter endorsing free-trade agreements — agreements that would eliminate just about all barriers to trade with those three countries, open markets to an additional \$11 billion a year in U.S. exports, and strengthen U.S. ties to key allies in East Asia and Latin America? Good question.

Those who refused to sign may have bought into the argument by some on the right that trade agreements are not really for free trade but rather managed trade, a violation of the Constitution, and a surrender of U.S. sovereignty to faceless international bureaucrats. If that's the reason, those members will be sacrificing the economic freedom and opportunity of their constituents on behalf of a false understanding of how trade agreements work in the real world.

First, a trade agreement is not “managed trade” by any generally accepted definition. For most people familiar with trade policy, managed trade means the setting by government of specific targets or quotas for imports and exports. The U.S. bullying of Japan in the 1980s to “voluntarily” limit its export of cars to the U.S. market was managed trade. U.S. quotas on imported sugar that virtually guarantee domestic producers 85 percent of our market is managed trade.

In contrast, trade agreements eliminate tariffs, barriers and controls on trade so that consumers and producers in the market, not governments, determine what we import and export.

Second, trade agreements are constitutional by any fair interpretation. Article 1, Section 8 of the U.S. Constitution authorizes Congress “to regulate commerce with foreign nations.” While the executive branch negotiates trade agreements, it is Congress that must vote to approve any implementing legislation. The president cannot change a single tariff line without legislation from Congress authorizing the change.

What trade agreements do is involve the executive branch in the process in a way that maximizes the chances of lower tariffs and minimizes the danger of a runaway bill unilaterally increasing tariffs. That is just what happened in 1930 when Congress, acting entirely on its own, raised hundreds of tariff lines in a futile bid to help U.S. industry and agriculture. The result was the Tariff Act of 1930, better known as the Smoot-Hawley Tariff Act, which did nothing to save jobs but did incite retaliation by our trading partners, leading to plummeting U.S. exports and an even deeper and more prolonged Great Depression.

In his wonderful new book “Peddling Protectionism: Smoot-Hawley and the Great Depression” (Princeton University Press), Dartmouth College economist and historian Douglas A. Irwin warns that Congress, left on its own to fashion trade policy, will quickly be captured by special interests. The problem with Smoot-Hawley “was that each member of Congress looked out for the special producer interest in his or her particular district without considering the broader national interest, particularly those not represented in the legislative process.”

By the 1950s, Mr. Irwin notes, “both parties endorsed the idea that the executive branch should be able to conclude trade agreements with other countries. As a result, the Tariff Act of 1930 proved to be the last time Congress ever determined the specific rates of duty that applied to U.S. imports.”

Those who support less government interference in trade should find it hard to argue with the success of postwar negotiated trade liberalization. Mr. Irwin again: “Since World War II, a series of multilateral and bilateral trade agreements have reduced U.S. tariffs to levels that would have shocked Smoot and Hawley.” The average tariff on dutiable imports was 45 percent in 1930, compared to 5 percent in 2010. Isn’t that progress by any measure?

Finally, a few conservatives worry that trade agreements compromise U.S. “sovereignty.” In practice, trade agreements are an exercise in sovereignty. The U.S. government strikes an agreement with another government to each restrain their tariffs against each other’s exports for the mutual benefit of their citizens.

The result of trade agreements is that individual citizens enjoy greater freedom and sovereignty over their daily decisions as consumers and producers.

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