

# TOWARD SUSTAINABLE, EQUITABLE TRADE POLICY—NOT FALSE SOLUTIONS

ISSUE BRIEF BY **NELL ABERNATHY** AND **TODD N. TUCKER** | SEPTEMBER 2019

## Introduction

Tariffs are a blunt tool for job creation—a lesson we are relearning as Trump’s China tariffs raise costs for domestic producers. However, few critics of tariffs have offered a clear alternative to the global rules that have failed many Americans over the last several decades. Correcting the rules of trade and the global economy remains one of the most pressing challenges facing policymakers, but too often, proposals seem a choice between two untenable options: the free-market status quo or short-sighted protectionism. Due to false assumptions about the role of markets and the role of government in our economy, policymakers have narrowed their conception of international trade over the last forty years, harming workers and hindering economic potential. By expanding our understanding of markets and government, strategic trade policy can move us toward a globalized, pro-worker, pro-growth future.

The failures of our trade policies mirror—and amplify—the failures of our domestic economic policies. Over the last four decades, an increasingly pro-corporate series of rules has empowered the most privileged firms to consolidate their economic and political power. Rather than boosting innovation and competitiveness, these corporations have goosed profits by extracting more from workers, consumers, and communities and returning less in wages, taxes, and investment. Global trade agreements have codified these domestic privileges into international law. Parallel to this power consolidation, policymakers have curtailed and undermined needed public programs and investments. Such atrophy has contributed to a consistent governmental failure to employ public power in addressing crises—including the economic dislocation of millions and the degradation of our environment. In instances when government has intervened, these market-driven patch solutions have failed to address structural and fundamental challenges.

We can and should rewrite the rules of global trade—and those rules encompass far more than tit-for-tat tariffs. We must restructure international and domestic policy to curb the extractive power of corporations and increase the power of workers and consumers. Such restructuring requires both substantive and procedural reform. Rather than protecting capital and corporate interests alone, our international agreements can enshrine rules prioritizing



workers, environmental interests, democracy, and human rights. Workers, consumers, and an array of currently unrepresented stakeholders must have a seat at the table, to advocate for their interests in trade negotiations and within international organizations.

We must also reclaim the public power of government to serve the public good, with the acknowledgment that government can not only be as efficient but can sometimes be more efficient than the private sector. Government can best do what the market has not or will not: ease economic transition, invest in research and long-term growth, and check corporate power consolidation.

By curbing corporate power and reclaiming public power, we can have the best of all worlds: the efficiency of international integration, the proliferation of quality jobs and innovation, and the protection of labor rights and the environment.

## **THE PROBLEM: AN UNBALANCED TRADE POLICY**

### **Trade Policy Encompasses More Than Tariffs Alone**

To stimulate trade and economic growth, trade agreements have long sought to reduce tariffs—the central tax that countries impose on imports to advantage domestic goods or collect government revenue. At the end of World War II, tariff rates averaged between 20 and 30 percent of the value of imports; by the 2000s, that rate had tumbled to about 4 percent in industrial countries, according to the World Trade Organization (WTO).<sup>1</sup>

But modern trade agreements encompass much more than just tariffs. For example, beginning in the 1970s, General Agreement on Tariffs and Trade (GATT) negotiations and disputes began to focus on so-called “non-tariff barriers”—a capacious term of art that covers both obvious discrimination against imports and regulations that have little or nothing to do with traditional trade concerns. Thus, over the years, trade agreements have included rules on financial regulations, environmental and labor protections, and investment policies. In addition, under this new agenda, negotiators have pursued protections for capital and intellectual property.

The expansion of trade policy to topics beyond tariffs has proven problematic in both substance and process. Influenced by corporate and financial interests, trade policy has disproportionately prioritized the interests of capital holders and large corporations. Moreover, international agreements are increasingly shifting rule-writing for regulatory and industrial issues from the

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<sup>1</sup> WTO, “World Trade Report, 2007” (Geneva: World Trade Organization, 2007), [https://www.wto.org/english/res\\_e/booksp\\_e/anrep\\_e/world\\_trade\\_report07\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/anrep_e/world_trade_report07_e.pdf).



domestic (democratic) to the international (technocratic) sphere. For instance, in 2019, a WTO panel ruled against the Buy Local elements of seven U.S. states' renewable energy programs – a key lever that policymakers use to generate jobs and political buy-in for difficult environmental transitions.<sup>2</sup>

*Increased opportunities for extraction:* Amplifying corporate consolidation and financialization at the domestic level, international trade policy has increased the power of corporate and financial interests vis-à-vis workers, communities, and even national governments. This entrenched power allows firms to increase profits through unproductive and inefficient activities—paying workers less, avoiding taxes, and securing policy privileges—rather than through innovation and investment.

- **Limiting tax collection:** In the 1970s, governments loosened restrictions on capital mobility and thereafter wrote international trade agreements to solidify these privileges for the largest firms and richest individuals. The result: Global corporations can now increase their bottom lines simply by claiming that profits originated in lower tax jurisdictions. Thanks to this use of paper profit transfers, tax havens now supposedly generate 40 percent of all global profits. US corporations are responsible for half of all profits booked in tax havens,<sup>3</sup> and many of America's most profitable firms take advantage of this legalized tax avoidance, consistently paying well below the statutory tax rate.
- **Eroding labor rights:** While providing world-class protections for capital, trade agreements give short shrift to labor concerns—simultaneously offshoring jobs while offering unions little in the way of meaningful rights. This inequity is clear in the aggregate data. According to the US International Trade Commission (a governmental body), US trade deals increased average incomes by a mere 0.2 percent, while boosting income for patent monopolists by 12.6 percent.<sup>4</sup>
- **Shifting power away from democratic governance:** Trade deals aren't just favorable to corporate rights on paper; these agreements often promote governance structures that are anti-democratic in practice and provide

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<sup>2</sup> Todd N. Tucker, "There's a Big New Headache for the Green New Deal," *Washington Post*, June 28, 2019, sec. Monkey Cage Analysis Interpretation of the news based on evidence, including data, as well as anticipating how events might unfold based on past events, <https://www.washingtonpost.com/politics/2019/06/28/theres-big-new-headache-green-new-deal/>.

<sup>3</sup> Gabriel Zucman, *The Hidden Wealth of Nations: The Scourge of Tax Havens* (Chicago: University of Chicago Press, 2015).

<sup>4</sup> USITC, "Economic Impact of Trade Agreements Implemented Under Trade Authorities Procedures, 2016 Report" (Washington, DC: U.S. International Trade Commission, 2016), 133. Figure is for 30 top economies for which the government has data.



corporations expanded opportunities to influence the rules. For example, under so-called “investor-state dispute settlement” (ISDS), the penalties for violating capital rights are decided by private arbitrators paid and chosen in part by corporations.<sup>5</sup> Public interest groups, meanwhile, cannot even bring cases to these tribunals.

*Corrupted public power:* As corporate power has burgeoned, domestic policymakers have also undercut public power, undermining and underfunding government programs and investments that might have addressed inevitable economic dislocation. The US government has often ignored the distributional consequences of trade policy choices, and even when government has intervened, it has done so in marketized ways insufficient to the scale of the challenge.

- Lower wages: That trade policy has distributional consequences is—or should be—uncontroversial. Standard economics predicts that workers in capital-rich countries like the US will see declining wages in certain sectors when the government opens trade with labor-abundant developing countries. This affects not only workers in directly competing industries but workers at similar skill levels (including those in the service sector). Economists estimate that expanded trade with lower-wage countries has lowered the average wage of middle-class American workers by \$2,000 annually.<sup>6</sup>
- Lost jobs and damaged communities: Increased imports from China, in particular, have impacted communities. The local economies facing the most growth in Chinese import competition from 1990 to 2007 saw the largest declines in employment—both in manufacturing and in other sectors.<sup>7</sup> The human toll has been immense; the communities most exposed to trade competition have seen sharp rises in fentanyl overdoses, and military enlistment (while an honorable career) has become one of the only viable career paths.<sup>8</sup>
- Insufficient public assistance: While government choices have shaped the outcomes of trade, the nation has largely left workers on their own in tackling the economic transition. Trade adjustment assistance—dramatically underfunded as

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<sup>5</sup> Todd N. Tucker, *Judge Knot: Politics and Development in International Investment Law* (London: Anthem Press, 2018).

<sup>6</sup> L. Josh Bivens, “Adding Insult to Injury: How Bad Policy Decisions Have Amplified Globalization’s Costs for American Workers” (Washington, DC: Economic Policy Institute, July 11, 2017), <https://www.epi.org/publication/adding-insult-to-injury-how-bad-policy-decisions-have-amplified-globalizations-costs-for-american-workers/>.

<sup>7</sup> David H. Autor, David Dorn, and Gordon H. Hanson, “The China Shock: Learning from Labor-Market Adjustment to Large Changes in Trade,” *Annual Review of Economics* 8 (2016): 205–240.

<sup>8</sup> Adam Dean, “NAFTA’s Army: Free Trade and US Military Enlistment,” *International Studies Quarterly* 62, no. 4 (December 2018): 845–856, <https://doi.org/10.1093/isq/sqy032>.



always—has not kept pace with the trade agreement boom of the last four decades. For every \$1,000 increase in import competition from China between 1990 and 2007, this program increased by a paltry 23 cents per person.

- **Marketized solutions:** Trade assistance, even when funded, was a fundamentally flawed approach that sought to patch-fix market dysfunction. The faulty assumption that individuals displaced by trade could quickly gain new skillsets and jobs relied on the market to create well-paying jobs in the same hard-hit communities. Instead, the erosion of labor rights, increased power of employers, and prioritization of shareholders ensured that most new jobs were lower wage. Manufacturing jobs—the chief victims of trade integration—still pay an average of 9 percent more per week than their non-manufacturing replacements.<sup>9</sup>

*Trump’s tariffs are the latest example of this insufficient, marketized approach to public problems: Tariffs have failed to address a dysfunctional market and have too often increased returns to the shareholders in covered industries, without benefiting American workers.*

- **Gains aren’t automatically passed on:** The gains to an industry from tariffs don’t necessarily trickle down to workers. When the Trump administration imposed across-the-board steel tariffs on most countries in 2018, profits for steel companies went up, but the benefits didn’t trickle down to steelworkers until they threatened to go on strike.
- **Tariffs alienate allies without benefiting workers:** There are real challenges to trade with China and other countries, but meaningfully addressing them requires smart diplomacy—not chaotic grandstanding.
- **However, tariffs should not be attacked for short-sighted reasons:** Some attack tariffs for raising prices on consumers, but low consumer prices should not be the only end goal of economic policy. Many policies worthy of support (like paying workers a living wage) might also raise prices. Some skeptics attempt to disparage tariffs in theory by labeling them a “tax.” In fact, just as taxes can provide a useful wrong in structuring economic policy, targeted tariffs can complement a smart domestic job creation strategy.

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<sup>9</sup> Andrew Stettner, Joel Yudken, and Michael McCormack, “Why Manufacturing Jobs Are Worth Saving” (Washington, DC: Century Foundation, June 13, 2017), <https://tcf.org/content/report/manufacturing-jobs-worth-saving/>.



## **THE SOLUTION: AT THE DOMESTIC AND INTERNATIONAL LEVELS, CURB THE EXTRACTIVE POWER OF CORPORATE AND FINANCIAL INTERESTS AND DEPLOY PUBLIC POWER ON BEHALF OF WORKERS, COMMUNITIES, AND LONG-TERM GROWTH**

### **Curb the Extractive Power of Corporate and Financial Interests**

*Use international agreements to empower workers and communities:*

- Measure trade deal impacts on job quality: We must prioritize job quality (along with job quantity) as a public policy goal and strengthen labor organizing in emerging sectors. Just as government conducts environmental impact assessments, regulators should measure and publicize how international agreements will impact workers and union density.
- Enforce labor rights internationally: US trade negotiators should promote labor rights with the same zeal that they've prioritized the protection of intellectual property, investment, and capital. Specifically, the US should commit to and require trading partners to make ambitious and binding labor rights obligations. This can include policies that aim to boost union density and other demonstrable metrics of labor power.<sup>10</sup>
- Enlist allies in the fight for equality and sustainability: From tax enforcement to decarbonization to human rights protection, many of our most pressing policy challenges require international collaboration. Just as the US has pursued market coordination and collaboration through trade agreements, negotiators can promote equity-enhancing goals in the international agreements of the future. Specifically, the US should require trading partners to commit to higher taxes on the wealthy, sanction partners that indulge corporate tax avoidance, and apply these same standards here at home. Similar cooperation on climate change and human rights is an urgent necessity.

*Curb the power of corporations to write international rules:*

- Remove restraints on domestic regulations: Revise previous trade agreements to remove rules constraining public interest regulation. Legacy trade agreements

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<sup>10</sup> Details can be found at: Todd N. Tucker, "The Sustainable Equitable Trade Doctrine" (New York: Roosevelt Institute, March 16, 2017), <http://rooseveltinstitute.org/trade-set-doctrine/>. Todd N. Tucker, "Seven Strategies to Rebuild Worker Power for the 21st Century Global Economy: A Comparative and Historical Framework for Policy Action" (New York: Roosevelt Institute, September 18, 2018), <http://rooseveltinstitute.org/seven-strategies-rebuild-worker-power/>.



include many rules about how governments can and cannot regulate. Negotiators should revise these rules and maximize our policy capacity to fight existential threats like climate change and inequality.

- Empower public interests internationally: Instead of multinational companies having the sole right to sue governments in international courts, all stakeholders—including workers, domestic businesses, and environmentalists—should get the same rights.
- Ensure transparent negotiations: Trade negotiators often work in secret, with little public knowledge about who they are and what exactly they are negotiating. Increasing transparency is critical to reducing the influence of special interests.

*Address the domestic economic policies that have increased the extractive power of corporations and capital at home:*

- Raise taxes: Along with enforcing tax collection on global revenues, we should increase domestic rates on top marginal incomes, corporate incomes, and dividends. Not only will this raise revenue for critical industrial policy, but it will also reduce unproductive concentration of capital and enhance productive investment.
- Improve stakeholder governance: We should curb the power of shareholders in a corporation by banning stock buybacks, putting workers on boards, and explicitly requiring corporate charters to state that firms serve all stakeholders.
- Redeploy robust antitrust policy: We should reduce the power of large firms to dominate markets by re-establishing a robust antitrust policy that prevents mergers and deploys public utility regulation when only a few businesses control essential goods like broadband.

### **Use the Power of Government to Serve the Public Interest: Transition Decimated Communities and Invest in New Industries**

*Use public power to meet essential needs for communities devastated by past trade policies:*

- Transition deindustrialized communities: Communities ravaged by globalization and de-industrialization need far more assistance than paltry tools like trade adjustment assistance or tariffs can provide. But instead of corporate boondoggles like Foxconn, the US should consider using a full range of tools less easily captured by private interests. Europe, China, and other competitors have embraced public



ownership, public management, and/or strict conditionalities to ensure that firms and industries are working towards common goals. These tools could help guarantee that any aided industries allow unionization, reduce carbon emissions, and maintain fair prices.

- **Expand the social safety net:** To complement these efforts, we must expand the social safety net to cushion workers and their families against future economic shocks—whether global agreements, technological changes, or business cycles. An expanded safety net would ensure healthcare access, a secure retirement, affordable housing, and educational opportunity for all Americans. Importantly, it would expand assistance beyond the status quo of minimal unemployment insurance and trade assistance.

*Enact a national industrial policy designed to create better jobs and boost worker standards in existing non-industrial jobs:*

- **Invest in the industries of the future:** To coordinate effective and transformational industrial policy, the US should establish an Office of Industrial Policy. Like such ministries of planning in advanced capitalist countries like the United Kingdom and Japan, such an agency would identify a set of national priorities for industrial development. In addition to invigorating our national competitiveness, this would provide the federal government with tools to better influence distribution of resources—instead of the limited and relatively blunt options (like interest rate management or tax depreciation allowances) at our disposal today. The US Department of Defense already performs similar functions for preserving the defense industrial base, but a more comprehensive plan could target additional policy priorities, including a green future.
- **Create quality jobs now:** While industrial policy is most often associated with manufacturing, policymakers can apply these insights to the modern service sector as well. For example, new child care centers (public or private), or guaranteed higher wages for home health aides are all tools to redirect socially underutilized capital and labor into a high road care economy.
- **Reward industries and firms that are pro-labor:** Government should condition its support for industries and firms’ overseas trade priorities on their treatment of unions and commitment to sustainable practices.



## CONCLUSION

Just as trade deals now encompass more than trade alone, a new global governance agenda must take a similarly broad approach to meeting the needs of working people. Such an approach must begin with a more inclusive process, so that corporations are not the only interests at the table. The end goal should be domestic and international institutions that support, rather than undermine, the solutions to urgent existential issues—including inequality and climate change.

International agreements that prioritize the 99 percent rather than the 1 percent may sound downright utopian in 2019, but the concept is not without precedent in American history. In the final days of the Franklin D. Roosevelt administration, US policymakers proposed an International Trade Organization that would not only reduce tariffs, but also help guarantee full employment and break up monopolies. The reason for linking all these issues was clear to officials: What point is there in reducing governmental barriers to competition while allowing private ones? Why promote freer trade if workers don't share in the benefits?<sup>11</sup> While the U.S. Senate never accepted this deal, the experience demonstrates that fairer international rules are imaginable. With vision and leadership, we can—and must—rewrite the rules.

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<sup>11</sup> Richard Toye, "The International Trade Organization," in *The Oxford Handbook on The World Trade Organization*, ed. Amrita Narlikar, Martin Daunton, and Robert M. Stern (Oxford: Oxford University Press, 2012), 85–101.



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