



Cordell Hull Institute

Trade Policy Analyses

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The Cordell Hull Institute was formed in 1998 by a small group in Washington, DC, concerned about the loss of direction in international economic policies not only in the United States but also in other leading industrialized countries.

The group of former senior officials – experienced in trade policy, law and negotiations – was led by Lawrence Eagleburger, the former U.S. Secretary of State, and Harald B. Malmgren, former Deputy U.S. Trade Representative, as the office (pictured at the top) is called today.



Reproduced here is the text of remarks in 1999 by **Lawrence Eagleburger** (above) at organizing meetings on the Institute's purpose.

PURPOSE OF THE INSTITUTE...

Need to Build a New Consensus on Trade and Investment

Lawrence Eagleburger

FREE trade is in trouble. The champions of economic liberalization in the United States appear to have gone on holiday. Business and agricultural supporters have become complacent, taking for granted the global markets they now enjoy, which took decades of sustained effort to achieve.

In the meantime, a widening coalition of opponents has been gathering, including labor leaders, environmentalists and, amazingly, some consumer groups. The opponents want to halt further negotiations to liberalize world markets and to stop, or slow down, imports that may be disturbing their traditional activities. They are joined by a new breed of politicians in both parties, from the left and from the right, who incline towards isolationism, the scaling back of America's involvement in multilateral organizations.

Boiled down, there is a growing fear of "globalization" in American politics, induced by anxieties that the opening of world markets is undermining the foundations of our economy and our society.

Breakdown of Bipartisan Support

Since the 1970s, businesses and financial institutions have been engaged in the globalization of production, marketing and the provision of services, driven by the need to stay competitive internationally. Governments helped to open the way after World War II by eliminating import quotas and controls on foreign exchange and capital flows and by reducing tariffs. Major efforts were then made by governments, beginning in the Tokyo Round negotiations, to hack away at the non-tariff measures that were being increasingly exploited to impede imports of goods, services and capital. As a result, international trade has been growing at roughly twice the speed of industrial production, providing a powerful engine of world economic growth.

About the Author

Lawrence Eagleburger, former U.S. Secretary of State (1992-93), is the Chairman of the International Commission on Holocaust Era Insurance Claims, Washington, DC, and Chairman of the Cordell Hull Institute.

Before becoming Secretary of State, Mr Eagleburger was Deputy Secretary of the State Department in the previous three years.

Mr Eagleburger is on the board of the Halliburton Company, Universal and Phillips Petroleum.

Trade Policy Roundtable

The Cordell Hull Institute's Trade Policy Roundtable is co-sponsored by seven international law firms with offices in Washington, DC: Akin Gump Strauss Hauer & Feld, Arnold & Porter, Hogan & Hartson, O'Melveny & Myers, Sidley Austin Brown & Wood, Steptoe & Johnson and Wilmer Cutler & Pickering.

For more than fifty years, the United States led the world in promoting trade liberalization and a global framework of rules for trade, trade-related investment and other aspects of commercial activity. This effort was supported by virtually every President since Cordell Hull's Reciprocal Trade Agreements Act of 1934 and until recently had continuing bipartisan support, based on a broad consensus that a more open world economy was in our best interests and the best interests of all trading countries.¹

Americans were engaged in business and financial activities in virtually every nook and cranny of the world economy. For many years, it was self-evident that the pursuit of free trade, based on common rules applied throughout the world, was not only essential to national and global prosperity. It was good, too, for American businessmen and farmers.

Importance of Institutional Stability

The importance of stability is worth stressing because it is so easily overlooked. The underlying purpose of the international economic order, as established after World War II, is to provide the stable institutional environment that enables private enterprises to know where they stand *vis-à-vis* their governments and the governments of other countries. That in turn enables them to make decisions of long-term significance, to plan for expansion or if need be for adjustment, thereby facilitating the process of economic growth.

During the years of international economic progress, there were efforts in the United States by special interests, if only periodically, to halt the opening of markets and the "export of jobs" and to build new walls to shield particular groups of workers and companies. But these efforts were repeatedly resisted by Presidents and both parties in Congress.

Yes, there were occasional actions taken to control foreign goods, with some of those controls existing to this day. On the whole, however, Congress and all post-war Presidents continued to press other governments to continue with liberalizing international trade and investment. Moreover, whenever requested, Congress granted new legislative authority to the President to engage in worldwide trade negotiations, not only about tariffs but also about the trade-distorting non-tariff measures that inhibit international business.

Prosperity, but Also Fears

We are at a time of unprecedented prosperity, at a time when unemployment in the late 1990s has hit bottom, with an evident shortage of workers in many parts of the country. We are enjoying sustained economic growth unparalleled anywhere else in the world.

Yet fears of loss of jobs to foreigners, and fears over a loss of sovereignty to international rules, are on the rise. Claims of foreign "unfairness" permeate the atmosphere of political discussion when the subject of international trade and investment comes up. The opponents of open markets are on the attack. The defenders are in retreat.

Our government has lost interest in how to shape the world economy in coming decades. Trade policy is being driven by complaints from specific companies or groups of workers. We no longer have trade strategies, only trade laws and trade cases – like cases in a corporate law firm. Trade officials have somehow undergone a metamorphosis. They have become law enforcement officers and take ever more strident positions on the "unfairness" and misbehavior of our trading partners. There is a growing perception of the United States as the bully on the block. And the Congress shows no willingness to fight back against the protectionists and neo-isolationists.

What about Negotiating Authority?

The upshot is that the Administration cannot persuade Congress to pass legislation authorizing further international negotiations. For the first time since World War II, the United States seems to be immobilized, unable to gain the support of Congress and unable to devise new concepts for coming to terms with the dramatic changes taking place in the world economy. But the rest of the world still looks to us for leadership. We are at a moment of crisis.

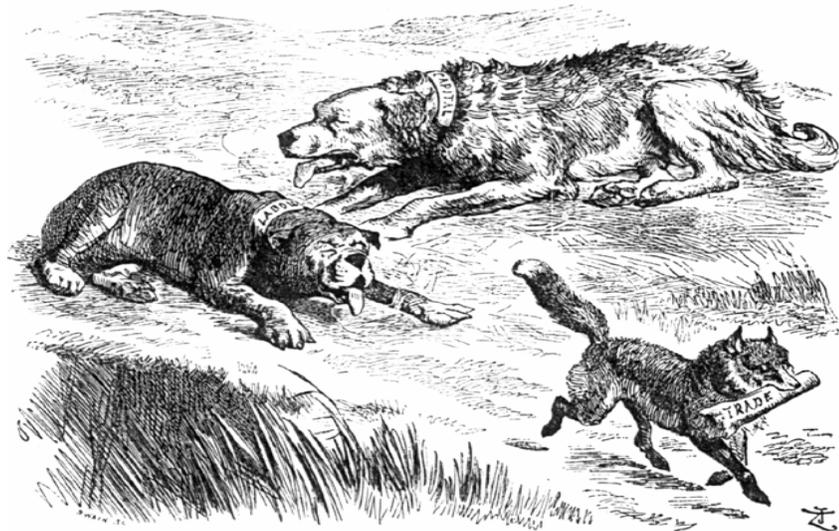
At the end of 1999, the United States will host in Seattle the third Ministerial Conference of the World Trade Organization. The WTO system came into being in 1995, based on the General Agreement on Tariffs and Trade (GATT), the legal foundation of the multi-lateral trading system that the United States and Britain conceived during World War II and negotiated with other 20-odd countries in 1946-47.

The WTO ministers, coming from 130 or so countries, are expected to launch a new round of multilateral trade negotiations, resuming efforts to liberalize trade in services and agriculture, as well as manufactures, and maybe extending the WTO system to investment and competition policies. The U.S. Administration has not expressed support for as comprehensive a round as most others want, but has outlined many reservations. Worse, it has not been able to induce Congress to grant "fast track" negotiating authority, needed to reassure our trading partners that, at the end of the negotiations, Congress will not try to renegotiate international agreements reached with the Administration.

Now it is true that the two previous rounds, the Uruguay Round negotiations and the Tokyo Round negotiations, were started before the Administration had secured negotiating authority from

Congress. On both those occasions, however, the United States had taken the lead internationally, having built a domestic consensus in favor of a new GATT round. Other governments had confidence in White House assurances that Congress supported the new round and would, before long, provide negotiating authority.

It would appear that President Clinton is preparing again, for the fifth time, to request Congress to pass fast-track negotiating authority with a commitment to write enforceable labor and environmental standards into future trade agreements. "I want Congress to give me the ability to use trade talks to protect the environment and the rights of workers," he declared in June.² This part of the request is highly controversial, opening the way for new forms of protectionism, and so a large part of the Congress is not likely to agree.



THE FOREIGN FOX.
(WITH APOLOGIES TO ÆSOP)

There is a famous Tenniel cartoon (shown above) that appeared in London's *Punch* magazine in February 1890, based in the Æsop fable "The Foreign Fox". It suggested that whilst British Capital and Labor were engaged in angry strife, the Foreigner was taking advantage of their mutual exhaustion to run off with their "bone of contention" – Trade. There is a lesson here, a century or so later, for American business and labor as it tussles over the globalization process, the perceived "export of jobs" and the President's trade-negotiating authority.

Trade Policy Analyses

Papers in the online series, *Trade Policy Analyses*, are published by the Cordell Hull Institute, which is a non-profit organization incorporated in Washing-

In this struggle the interests of others are being overlooked. The effort to include enforceable labor and environmental standards in trade agreements is strongly opposed by nearly all developing countries, which perceive such standards – the current promotion of them – as new justifications for protectionism against their

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The Institute's purpose is to promote independent analysis and public discussion of issues in international economic relations.

The interpretations and conclusions in its publications are those of their respective authors and do not purport to represent those of the Institute which, having general terms of reference, does not purport to represent a consensus of opinion on any particular issue.



The **mockingbird** is the state bird of Tennessee. Cordell Hull represented a district of Tennessee in the Congress of the United States, and was elected a senator from there, before becoming U.S. Secretary of State (1933-44).

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exports, which is difficult to deny. In 1997 we saw the prolonged effort in the Organization for Economic Cooperation and Development (OECD) to negotiate a Multilateral Agreement of Investment come to grief, hijacked by labor and environmental interests – although there were also other reasons.³

So it looks as though the current Administration is unlikely to obtain trade-negotiating authority before the next Presidential election. Congress does not sense the emergence of a national consensus. Nor is there any credible sign of a political effort by the Administration to build one. There is an urgent need, then, to develop a new consensus on how to pursue the further liberalization of trade and investment, free of commitments to pursue labor and environmental interests (which could still be pursued in other international organizations formed for the purpose).

But it is not enough to achieve consensus within America's borders. It is also necessary to build consensus around the world – among the governments of WTO member countries – on how to maintain the momentum of trade and investment liberalization.

Leadership at Home and Abroad

That is what we expect the Cordell Hull Institute to try to do, to develop consensus and build support for new efforts to open world markets – for renewed efforts to reconcile the many conflicting national laws, policies and regulations that impede international business, economic growth and rising standards of living worldwide.

In a rapidly integrating world economy the maintenance, development and extension of the international economic order underpinning peace and prosperity, has to be a central plank in the foreign policy of the United States and other major trading countries.

In the United States, thanks to a superb system of higher education, we have first-class people in our businesses, professions, universities and public life all around the country who are ready, I believe, to play a part in public discussion and policy formation on the issues of the day in international economic affairs. We plan to develop a range of activities, given the availability of resources, through which in time they can participate and help make the difference that is needed to maintain stability, growth and development in the world economy.

¹ For a recent account of Cordell Hull's role in restoring a semblance of order following the Smoot-Hawley debacle in the early 1930s, see Michael A. Butler, *Cautious Visionary: Cordell Hull and Trade Reform, 1933-1937* (Kent, OH, and London: Kent State University Press, 1998).

² W.J. Clinton, Commencement Address, University of Chicago, June 12, 1999.

³ David Henderson, *The MAI Affair: a Story and its Lesson*, Pelham Paper No. 5 (Melbourne: Melbourne Business School, 2000; and Washington, DC: Brookings Institution Press, 2001).