

Trade and the US Presidential Election

*Daniel Griswold**

Theme¹: The US Presidential candidates Barack Obama and John McCain have embraced sharply different positions on the important issue of international trade.

Summary: On the campaign trail and in their Senate voting records, US Presidential candidates Barack Obama and John McCain have embraced sharply different positions on the important issue of international trade. Senator McCain, a four-term Republican from Arizona, unabashedly describes himself as a free-trader. Senator Obama, a freshman Democrat from Illinois, is much more circumspect about the value of trade, acknowledging its benefits in the abstract but opposing most trade agreements in practice. This essay will examine their respective positions on trade liberalisation, and then consider the implications for the upcoming Presidential elections and American leadership in the global economy.

Analysis:

John McCain on Trade

John McCain touts his support for free trade on the campaign trail, and his record in the Senate proves it. According to the Cato Institute web site, www.freetrade.org, McCain has voted in favour of lower trade barriers on 88% of the 40 major trade bills that have come before the Senate in the past 15 years. Before leaving the US for a trip to Latin America in July, McCain said, 'For me to give up my advocacy of free trade would be a betrayal of trust. I think the most precious commodity I have with the American people is that they trust me'.

McCain voted for and continues to support the North American Free Trade Agreement (NAFTA) with Canada and Mexico. He voted for DR-CAFTA, the 2005 free trade agreement with five Central American countries and the Dominican Republic. He voted for permanent normal trade relations with China while opposing punitive tariffs against China over its currency. He voted against the Byrd amendment, which distributes anti-dumping duties to petitioning US companies and has been successfully challenged by the EU in the WTO. He opposed the protectionist and subsidy-laden farm bills of 2002 and 2008, and also opposes trade-distorting subsidies for ethanol. He supports proposed free trade agreements with Colombia and South Korea.

* *Director of the Center of Trade Policy Studies at the Cato Institute in Washington, DC.*

¹ This essay is based on remarks he delivered at the symposium held in Barcelona on 5 June 2008 sponsored by the American Chamber of Commerce in Spain.

While acknowledging that trade dislocates some US workers, McCain argues that free trade fuels growth and innovation to the benefit of most Americans. He is one of the few politicians who touts the consumer benefits of import competition as well as the more obvious producer benefits from expanding exports.

In a *Wall Street Journal* op-ed column just before the Super Tuesday primary in February, McCain's chief economic adviser, the former congressional budget director Douglas Holtz-Eakin, summarised the candidate's position on trade:

'Mr McCain will re-affirm American leadership in global trade. It is essential that American workers have access to the 95% of the world's customers that are outside our borders. The US should engage in multilateral, regional and bilateral efforts to reduce barriers to trade, level the global playing field and build effective enforcement of global trading rules. Opening new markets for trade in goods and services is an indispensable aspect of economic freedom, for entrepreneurs and workers, and a proven road to greater prosperity.

'As a student of history, Mr McCain rejects those who preach the false virtues of economic isolationism—those who urge the US to bury its head in the sand. The world made the grave error of building walls against trade 75 years ago, which contributed to the Great Depression. Since then, the US has been in the forefront of the fight for reduced barriers to trade. It has reaped the benefits of sustained growth in standards of living, an awesome display of innovation and technical advance, an explosion in the variety, quality and affordability of consumer goods, a rise in home ownership, and ascendancy to the position of world's greatest economy'.

The one trade issue where McCain opposes the lowering of barriers is Cuba. Like President Bush and most Republicans, he is a supporter of the long-standing US trade embargo against the communist-ruled Caribbean island. McCain has voted consistently to maintain the embargo and travel ban.

Barack Obama on Trade

Barack Obama has staked out a far more sceptical view of trade. Since joining the Senate in 2005, he has voted in a free trade direction on only 4 of 11 major votes affecting trade barriers, or 36% of the time. In contrast to McCain, he voted against CAFTA and in favour of 100% scanning of import containers by 2012, the Byrd amendment to distribute antidumping booty, and the Schumer-Graham amendment that would have imposed 27.5% duties on Chinese goods absent the rapid appreciation of the renminbi. He voted for the 2008 farm bill and opposes the agreements with Colombia and South Korea.

Obama has been a relentless critic of the North American Free Trade Agreement with Canada and Mexico, the same agreement that President Clinton signed into law in 1993. In a debate with New York Senator Hillary Clinton before the March Ohio primary, Obama said that, as President, he would demand that Canada and Mexico reopen NAFTA to insert minimum labour and environmental standards. If America's two closest neighbours and commercial partners refuse, he pledged to 'use the hammer of a potential opt-out' to persuade them.

This threat raises all sorts of problems about US credibility. It also perpetuates a cruel hoax that if we can just tinker with a 15-year-old agreement, we can bring an industrial renaissance to Rust Belt cities such as Youngstown, Ohio. An Obama advisor reportedly told the Canadian government that the candidate's statement was 'more reflective of political manoeuvring than policy', so it remains to be seen how hard he would push for renegotiation if he become President.

Obama's record and rhetoric are not uniformly opposed to trade liberalisation. Along with McCain, he supported the Oman and Peru FTAs, and in contrast to his more hawkish opponent, Obama actually wants to loosen the failed, 48-year-old trade and travel embargo against Cuba.

In his bestselling 2006 book, *The Audacity of Hope*, Obama acknowledges that trade expansion can benefit the nation as a whole:

'There is no doubt that globalization has brought significant benefits to American consumers. It's lowered prices on goods once considered luxuries, from big-screen TVs to peaches in winter, and increased the purchasing power of low-income Americans. It's helped keep inflation in check, boosted returns for the millions of Americans now invested in the stock market, provided new markets for US goods and services, and allowed countries like China and India to dramatically reduce poverty, which over the long term makes for a more stable world'.

On CAFTA, Obama acknowledges that, 'Viewed in isolation, the agreement posed little threat to American workers... There were some problems with the agreement, but overall, CAFTA was probably a net plus for the US economy'. Yet he justified his vote against CAFTA as 'the only way to register a protest against what I considered the White House's inattention to the losers from trade'.

The only major trade vote where Obama differed from Hillary Clinton was a 2005 amendment that would have barred US negotiators in the WTO from agreeing to any restrictions on current US antidumping law. Clinton voted in favour of the amendment, Obama against. It may offer a glimmer of hope that there are limits to how far Senator Obama will go to appease the party's core constituencies on trade.

The Impact of Trade on the US Election

At first glance, the politics of trade would seem to favour Obama. Most Americans tell pollsters they are wary of the impact of trade on jobs and manufacturing. Much of the anger in declining industrial regions is aimed at trade agreements such as NAFTA, even though overall employment, manufacturing output, and median household income have risen significantly in the US since the passage of NAFTA.

Reservations about trade, though widely held, have not been decisive in Presidential elections. Americans expect their Presidents to be more statesmanlike than your typical parochial member of Congress. The President must look out for the good of the nation as a whole, and that includes building relations abroad through expanding trade and investment ties. Protectionist rhetoric that may win cheers before a partisan primary crowd often falls flat on the general campaign trail.

Past US Presidential campaigns are full of examples of candidates who tried to play the trade card without success: in 2004, John Kerry pointed the finger at 'Benedict Arnold CEOs' who were outsourcing and off-shoring work abroad. In 1992, H. Ross Perot warned of a 'giant sucking sound' of US jobs and investment stampeding to Mexico if NAFTA became law. In 1988, Michael Dukakis criticised foreign investors taking over the economy, and in 1984, Walter Mondale predicted American kids would soon be sweeping up around Japanese computers. Last time I checked, none of them had a Presidential library.

Even in the 2008 political season, the more populist voices in both parties failed to gain traction. On the Republican side, those who wanted to shut the door to immigration failed to catch on. And on the Democratic side, the major candidate who beat the most populist drum against trade, the former North Carolina senator and Vice-presidential candidate John Edwards, was never really a factor and dropped out early.

The Impact of the US Election on Trade

Whoever wins in November, American leadership in the global economy will probably diminish. Even if Senator McCain wins, he will likely face a Democratic Congress that will be reluctant to approve any sweeping measures for trade liberalisation. The signs are already ominous for those of us who support reducing barriers to trade and investment. Congress just passed a massive business-as-usual farm bill over President Bush's veto. The farm bill makes a mockery of our call for other countries, including those of the EU, to reduce their own trade barriers and subsidies for agriculture. It shovels billions of dollars a year in subsidies and trade protection to a small number of farmers whose average income and net worth are significantly above the average non-farm family.

Earlier this spring, the same Congress rewrote the rules of trade promotion authority to put the US-Colombia Free Trade Agreement on the back burner. This was a slap in the face to one of our best friends in Latin America, a government that is standing up to its bully neighbour Hugo Chávez. Bowing to union pressure, congressional leaders refuse to let the agreement even come up for a vote. This marked the first time that Congress has changed the basic rules of TPA/fast track since the mid-1970s. From the time Congress enacted the first such authority in 1974, Republican and Democratic Presidents alike had used it to enact the Tokyo and Uruguay rounds of GATT negotiations, and trade agreements with 14 countries, including Israel, Canada, Mexico, Jordan, Australia, the Dominican Republic and five Central American countries.

Conclusions: The most likely result of the election will be a legislative stalemate on trade. We will achieve by default the trade 'time out' that Hillary Clinton proposed. Without new agreements, 'enforcement' will become the focus of US trade policy. Pressure will grow to 'get tough' with our trading partners by filing more WTO cases, more Section 201 safeguard actions, and special 421 cases against China. The 2008 farm bill has probably already taken the air out of any fresh US proposals in the Doha round. A strong commitment by Congress to defend every last letter of the US anti-dumping laws will complicate efforts to reach a final agreement.

One consolation for supporters of trade liberalisation is that we are unlikely to see a dramatic turn back towards protectionism. The US federal system was designed to avoid sharp changes in policy. The checks and balances built into our system will probably head off the worst kind of trade legislation. First, any trade bill would need to pass the

historically more pro-trade Senate, where it would need to muster the 60 votes out of 100 needed to close debate.

Secondly, Presidents tend to learn once in office that trade protection comes with a high price for the nation as a whole. In 1992, Bill Clinton ran on a generally pro-trade platform, but he also threatened to get tough with the 'butchers of Beijing' by promising to link normal trade relations to progress on human rights. But once in office he had to consider the economic and foreign policy damage that would be inflicted on the whole country if punitive tariffs were to be imposed on Chinese goods. He quickly and wisely dropped that pre-condition.

Despite those institutional checks, the outcome of this autumn's Presidential election will have a measurable if not dramatic impact on the direction of US trade policy. Based on their records, a President McCain would be more likely to pursue new initiatives to liberalise trade than would a President Obama. And if legislation to raise trade barriers were to reach the desk of the next President, it is virtually certain a President McCain would veto it, while a President Obama would be much more likely to sign such legislation into law.

Daniel Griswold

Director of the Center of Trade Policy Studies at the Cato Institute in Washington, DC