CARNEGIE ENDOWMENT
FOR INTERNATIONAL PEACE

Freedom from Want: American Liberalism and the Global Economy

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Speakers
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The Carnegie Endowment hosted a discussion with Edward Gresser of his book, Freedom from Want: American Liberalism and the Global Economy, on February 15, 2008. The world trading system, which Gresser argues is a product of American liberal trade initiatives since the 1940s, currently attracts criticism from many American liberals. Gresser discussed the evolution of this system, its flaws and shortcomings, and contemporary critiques from the liberal camp.

In his book, Gresser argues that, over the last sixty years, trade policies have achieved many of the goals envisioned by their liberal founders. But he also points out that those trade policies bear embarrassing gaps, particularly regarding their bias against the poor and limitations to ameliorate the environment and promote peace. Arguing that facing competition from low-wage countries is not new and that the U.S. economy is well equipped to stand the challenge, he calls for a U.S. unilateral elimination of import tariffs on all products from the poorest countries.

As an example of how much U.S trade policy can do, Gresser opened his discussion with the situation of the garment industry of Cambodia. By granting access to the U.S. market, liberal trade policy gives a low-income country an opportunity to become a self-sustaining middle-income country. Garment exports to the United States help support the Cambodian economy and the average wage in the garment industry is over twice the average per capita income in Cambodia. Rural families send daughters to work in garment factories. The daughters' wages provide food security and the initial investment necessary for the family to build its own livelihood. A middle-income economy can grow from these investments.

Gresser emphasizes the importance of keeping fresh in our minds the evolution of today's American trade policy. Historically, Democrats have been the proponents of free-trade and their opposing party the proponents of protectionism. Throughout American history, U.S. trade policy has shifted between protectionism and open borders following shifts in the majority party in Congress.

But the dramatic and unfortunate coincidence of financial crisis and massive trade restrictions in 1929, which led to a drop in the total volume of global trade by two-thirds, shaped U.S. trade policy for years to come. President Franklin Roosevelt saw an opportunity to create the global institutions that could ensure that financial crises do not lead to the unraveling of the global economy, and laid the foundations of the Bretton Woods Institutions during his tenure.

The landscape of the world economy has changed significantly since the creation of the world trading system. Manufacturing has replaced agriculture as the productive sector that dominates world trade. Global economic powers are no longer at war. Even in this new context, the world trading system created during the depression fulfills the goals of its founders. Cambodia, a low-income country, has the opportunity to join the ranks of middle-income countries.

Gresser rebutted two liberal critiques of the world trade system. First, contemporary liberals argue that American manufacturing has suffered from open trade since the 1970s. While Gresser recognizes that inequality increased and manufacturing employment decreased in this period, he emphasizes that aggregate unemployment has fallen from an average of 7 percent between 1975 and 1990 to an average of 5 percent between 1990 and today. U.S. industry has, in fact, increased its strength through efficiency improvements and specialization in high-technology products. Freer trade has not led to de-industrialization of the American economy.

Gresser also rebutted the critique from the liberal camp that the opening of the global economy provides an avenue to exploit low-income workers in the global economy. Low-income workers have benefited from an open global economy in many countries. The challenge is to identify and publicize these success stories, many which can be found in Latin American countries – in particular, Brazil.

Gresser agreed with two common liberal critiques. First, global trade policy could be more aggressive in bringing down environmentally destructive subsidies and tariffs on clean environment technology. Second, global trade policy is not 'pro-poor': tariffs are low on the natural resources and high-tech goods that dominate rich-country trade, but high on the clothes and food important to poor countries.

In the subsequent question and answer session, Gresser argued that the Trade Adjustment Assistance program (TAA) is a generous program that ameliorates the stress the open trade regime puts on the American system. He admits that TAA has some basic problems. Workers must prove that they have lost their job because of trade; this is difficult for workers in small firms. TAA also creates a two-tiered unemployment system. Workers who lose their jobs due to trade are eligible for more jobs and training opportunities than other unemployed. Gresser hopes that the system can be adjusted to expand eligibility and improve job placement.

Gresser was also asked to react to the liberal critique that developing countries should be allowed to protect infant industries. He argued that most poor countries develop by importing industries through foreign direct investment, not by inventing them. In many cases, foreign investors employ local workers as the middle-management staff. Over time, these local employees will become a local business class.

An audience member then wondered whether trade policy is the answer to development. Gresser said that countries with good institutions will most likely benefit from an open trade regime, as long as surrounding countries are economically and political stable. He noted that there is a perception in the developing world that poor countries should sell to rich countries. Tariffs in middle-income countries are low for goods from developed countries and high for goods from poor developing countries. To improve trade opportunities for the poorest countries, this middle-income country trade policy must also change. Rich countries have a responsibility to enact fair trade policies toward the poorest countries. Middle-income countries should share this responsibility.
