Concerning the Formulation and Implementation of Foreign Trade Policy

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As most international economists know, there is today in the popular press as well as in government and academia a turning away from the post-World War II consensus that emphasized the necessity of international agreement on the ideal of free trade and an embracing of greater interventionist pursuit of nationalist self-interest in the trade arena.

The reasons for the emergence of this shift have their roots in the American trade experience of the 1980s that has been well documented in past issues of the Economic Report of the President. The historical event generally recognized as being the most important is the appearance in the 1980s of extensive Federal budget deficits, the need to borrow large sums of money from foreign lenders, and the effect that this has through high U.S. interest rates, high value of the dollar, and reduced American competitiveness on creating a large and stubborn trade deficit. The trade deficit, in turn, has incited greater scrutiny of America’s trading position in the world, and of the treatment received by American companies and products in foreign markets. Although the prime cause of the deficit is domestic and macroeconomic in nature, the perception has grown that Japan primarily, but also Latin America and Europe, have not been "playing fair" in their international trade dealings and that developing countries have never fully subscribed to or participated in the obligations of free trade, even though they have enjoyed access to and the benefits of open trade in the advanced world for years. Knowledgeable observers will admit that many, if not most of the objectionable practices found in foreign countries have been around for much longer than the period of the U.S. trade deficit. But, as the perception goes, whereas in the past we could overlook such behavior because American income and pre-eminence were not threatened, today things are different. The conclusion is that American advocacy of and dependable adherence to free trade is a luxury that must be jettisoned: from now on America should look more to her own interests by pursuing the nationalist advantage wherever it can safely be enhanced.

These are significant, and disturbing, changes. Elsewhere I have argued that Biblical principles—including doing unto others as you would have them do unto you, honoring the sanctity of covenants, properly interpreting the importance of the individual relative to the nation (as opposed to subordinating the individual to some notion of national preeminence), and requiring parity of conduct between nations—argue for a different foreign trade policy than that which seems to be emerging, and certainly rejects the nationalist message of the new interventionists. It is important therefore to understand some of the features and trends that go into the formulation and implementation of national policy.

The choice of foreign trade policy is first and foremost a planning exercise. A combination of right analysis, forward thinking, suitable distribution and dissemination of the right ideas, and integrity in the system for implementing the chosen policy are ingredients that are necessary for attaining the right end. In my experience, however, too few of these elements are present in the government apparatus and there is little overall direction or guidance from the highest echelons of government to replace the natural tendency of the system to drift in mercantilist directions.

To begin, I was surprised when I reached Washington to learn that not only does right analysis frequently not prevail in determining the outcome of a trade matter, but that failure of right analysis to prevail is the normal and expected state of affairs. By this I mean that in most departments of government and for most policy issues little or no quantitative analysis (of a
sort that would pass muster in an academic setting) is performed. This is partly from lack of time, but even on issues where advance planning is possible, the attention given to the analysis once it is completed is often slight to nonexistent. What critical thinking does get done is usually accomplished by a few individuals on their own initiative and not as part of the accepted decision-making process. Such individuals run the risk that their diligence will not pay off due to the disregard of their findings by their policy-making counterparts in other agencies. This was not just a problem that I faced, but applied more generally. Perhaps I was naive to expect otherwise. However, when the removal of only a few critically thinking individuals from a process would render that process virtually unfruitful, it is a sign that the structure of decision-making itself needs to be revised. In the cases in which I had a part, I found that one or two individuals, in a group of fifteen (representing the various departments of the Executive Branch), were often all that prevented the deliberation process from ceasing carefully debate and consistently adopting what I knew to be ill-considered and ill-explored alternatives.

To give just one example of how right analysis does not prevail I can point to the Section 301 case that dealt with an Argentine tax on the exports of their raw soybeans. Since the net effect of the Argentine program was to reduce the price of soybeans in Argentina, the tax acted as an implicit subsidy to Argentine soybean processors who used raw beans as an input. American soybean processors brought complaint that this was an interference in trade and an unfair trade practice. It is relevant, of course, that the U.S. has programs that subsidize parts of American agriculture (though not American soybeans) which are just as objectionable to others as the Argentine program is to us. The Argentines naturally pointed to American examples of equal perfidy. To pursue the case required proof of damage to American interests, and calculation of the value of damage in order to set a retaliatory tariff if Argentina did not respond to American requests to eliminate the tax. Since America exports both soybeans and soybean oil (the processed soybean product) it was necessary to know how the Argentine program affected world prices of both commodities. It turned out that the twist in prices caused by Argentina favored American interests by improving our terms of trade in total soybean products. This presumably important information was ignored in the Section 301 Committee’s deliberations, just as any attempt by Argentina to link their acquiescence to American demands to restraints on American use of Export Enhancement Program subsidies on U.S. agricultural exports was resisted.

Where government did not have the time or expertise to fully think through an issue, I also found that academic knowledge generally did not get much mention or attention by policymakers. In one example, I witnessed the suggestion of an academic (who would be known to most of the readers of this Bulletin) being dismissed without so much as a hearing or discussion even though this scholar has spent much of his career on the topic and has run conferences on the issues being debated. (The topic had to do with the Uruguay Round of GATT negotiations.) Failure to reference relevant analysis in the academic sphere is partly due to the fact that there are few trained economists among the decision-makers. Lawyers predominate and I found their understanding of economics to be virtually nil, with only two individuals as exceptions, out of scores that I dealt with.

Needless to say, long range planning was not typically pursued in the issues that I followed. If something was considered even six months in advance it was unusual. This was also true for the most part in the Uruguay Round negotiations where American leadership and planning were most needed and presumably would be more productive of results. Planning did not go on because the volume of other issues that needed attention prevented much time being spent on paperwork that could be postponed just a little longer.

To a certain extent, the direction of policy in foreign trade can be set by the Under Secretaries and Deputy Secretaries who hold posts just beneath the cabinet-level officials. However, prospects for personal political advancement, not some notion of the public good, sometimes fueled the zeal and dedication of officials in these posts. I should be careful to say that my remarks do not apply to everyone. But I did see a great deal of interest in promoting one’s personal career: if that goal led to behavior that agreed with the national interest, there was no problem; but if that goal was in conflict with the national interest, the national interest was compromised. This compromise often took the form of agreeing with a politically expedient solution to a problem rather than taking a stand for what may have been the correct policy but which would have taken much more energy to support and justify. Above all, it does not help career advancement to stand out too much unless it is in support of the policy of one’s superior or the policy, right or wrong, that will eventually win.

It is perhaps inevitable that lawyers who work for the Trade Representative’s Office should later sell their services to private Washington law firms for
$300,000-plus salaries after a few years in critical government trade policy positions (as did individuals with whom I worked). But it is unfortunate that such individuals while working for the government define their missions so heavily in terms of serving the advancement of their career paths at the expense of the pursuit of good policy.

Sometimes devotion to misplaced objectives led to ethical conflict. One which stands out in my mind had to do with the implementation of the Meat Import Act. This act requires the government to limit imports of beef if the annual import totals are estimated to exceed a bound set by formula. The President essentially has three options which are to impose quotas (since the trigger import level is 110% of the quota, this means a significant drop in imports of at least ten percent), seek "voluntary" export restraints from exporters of beef to the United States to keep imports below the 110% trigger, or announce that the trigger is exceeded but suspend quotas in the national interest. At the time action was being debated by the Trade Policy Review Committee the United States was arguing strenuously in GATT for the total elimination of subsidies and interferences in the agricultural markets. A quota, of course, was exactly the type of intervention that we were trying to eliminate worldwide. Moreover, the U.S. beef industry (which strongly supported, and stood to benefit from, U.S. efforts to open world markets for beef in other countries including the initiative at the time to eliminate Japan's quotas on the imports of beef) was suffering quantity declines in the face of rising prices, implying that domestic beef producers were not able to meet rising U.S. demand. The Council of Economic Advisers argued for suspension and tying the gesture to our Uruguay Round objectives. This response could also have been contrasted to Congressional protectionist intentions (which were ultimately foiled) to create a lamb import quota in the Omnibus Trade and Competitiveness Act of 1988 in imitation of the beef law. We convinced enough other agencies and departments of the advantages of the suspension approach that the Trade Policy Review Committee voted in favor of it. We learned later, though, that in contravention of the Committee's vote the Trade Representative's Office had negotiated "voluntary" export restraints anyway, as a concealed and shrouded way to impose quotas. It should be noted in this case that voluntary restraint agreements had been the path chosen to deal with the problem in recent years and new restraints were therefore the path of least resistance. Doing the right thing was not as important as looking good politically and professionally.

In the preceding short discussion I have focused, of necessity, only on problems that I saw in the Washington policy process. To balance this, I would like to note that there were also many aspects of the policy process which space prevents me from describing that I liked and felt proud of. For example, one of these was the openness in the system which did allow for personal initiative to have an impact on policy if the desire and effort were great enough. In reflecting on the formulation and implementation of trade policy, however, my mind settles most forcefully on the lack of planning and the lack of economics training of a large number of the policymaking individuals in Washington. Lack of planning and training lead to policy drift as we are now observing. An apparent historical regularity is that the uneducated mind tends to a mercantilist view of the world: trade is competition between opponents; exports are good, imports are bad; if foreigners harm our exports then we should harm theirs. Rather than modifying and enlightening this mercantilist viewpoint, government policymakers become progenitors of this view.

From a Christian perspective, in addition to better training in economics, an increased commitment to the ideal of government service as a public trust would be desirable. In my own time in Washington I did try to interpret and represent the interests of all Americans (not just those bringing suit to government), and seek to choose actions which retained the integrity of America in its global commitments. I prayed over trade matters on the assumption that God honors the prayers of individuals in their job capacity as well as personal capacity. Although I was not the highest ranking individual with responsibility for trade, it is possible that on occasion I was the highest ranking official that was praying for a particular issue. In the two events that I best remember praying for (the U.S.-Canadian Free Trade Agreement discussions at a critical juncture and settlement of the Japanese Construction dispute without recourse to sanctions) it was gratifying to see that those prayers were answered. Just consider what could be accomplished by a large number of Christians who are trained economists working together in Washington policymaking.