



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Grassley Receives Trade Award, Delivers Speech on Free Trade Principles

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, last night received the Cordell Hull Award from the Cordell Hull Institute for his “stalwart and independent-minded support for trade liberalization and the multilateral trading system.” The Cordell Hull Institute promotes independent analysis and public discussion of issues in international economic relations, focusing primarily on trade, investment, and competition policies to help build consensus and support for international trade and investment liberalization.

Grassley’s acceptance remarks follow.

Seven Principles of U.S. Trade Policy Remarks by Senator Chuck Grassley July 14, 2004

I want to thank you and the Cordell Hull institute for this award. It’s a true honor for me to be recognized for my work on free trade. Addressing the essentials of U.S. trade policy presents quite a challenge. U.S. trade policy is complex. I’m not an expert. However, in making trade policy, there are some fundamental truths that guide my decision-making. I’ll share these with you.

First, international trade rules should be about international trade. This seems simple enough. The purpose of international trade rules should be to foster international trade, not to advance domestic social agendas. International labor and environment rules are critically important. However, international trade shouldn’t be used as a pretext to force those rules upon other nations. Perhaps more important, trade sanctions should never be used as a tool of enforcing labor and environment standards. Trade itself creates the prosperity that leads to better working conditions and a better environment. That is why I support free trade policy, a policy which addresses the root causes of poverty and lack of development in developing countries.

Alternative proposals to condition trade with developing nations on achieving certain labor and environment standards is a fool’s errand. Like a fool’s errand, it gives an impression of progress while accomplishing little.

Second, protectionism is not free. A lot of people believe that no one is hurt by protectionism, except maybe our foreign competitors. But the facts are far different. In 1988, the WTO determined that three billion dollars a year was added to the grocery bills of U.S. consumers to support sugar import restrictions.

The 1996 Softwood Lumber Agreement taxing softwood lumber imports added \$1,000 to the cost of building a new house in the United States. That knocked as many as 300,000 people out of the home-buying market each year. A study in 2002 by the Federal Reserve Bank of Dallas found the costs of protecting a single job ranged from \$132,870 dollars for the costume jewelry business to over 1.3 million dollars in the benzenoid chemical industry, with an average cost of over \$200,000 dollars per job annually.

And it's not just individual consumers who are hurt. Businesses are consumers, too. When the government protects one sector of our economy, it impacts another. Because of the high cost of sugar in the United States, Chicago-based Brach's announced last year that it would close its large manufacturing plant in the city, shedding more than 1,000 jobs. So, we need to consider the considerable downsides to protectionism as we develop trade policy.

Third, free trade lifts all boats. There is an old wives' tale told all too often by politicians. They say that trading with poor nations leads to exploitation of third world workers and lost jobs for Americans. In short, they turn Adam Smith's beliefs on their head, saying that international trade is a lose-lose proposition. Nothing could be further from the truth. The fact is, when we trade with developing nations, they win and we win. History shows again and again that no nation has ever lifted itself out of poverty without opening up to world trade.

Countries like North Korea and Zimbabwe that try to wall themselves off from the world don't get richer, they get poorer. Countries that embrace trade, like Chile and Taiwan, grow richer. Forty years ago, South Korea's economy was on par with those of many West African countries. But, by opening its markets and embracing trade, its output per person is now on the same level as Europe. At the same time, many African nations that have not embraced open markets remain economically stagnated.

China is another good example. An estimated 160 million people there have been rescued from poverty in the past 20 years. Trade based economic growth enables countries to better address their development needs by combating poverty, illiteracy and poor health care.

Fourth, free trade promotes freedom. Free trade empowers individuals, not governments. There are few individual freedoms more important than the freedom to buy, sell and create. Free trade helps to break down government control over resources and frees consumers and businesses to make their own choices. Why should a small group of political leaders decide what individuals can buy and sell? Government control over trade empowers the state over the individual. It creates an environment in which non-transparent bureaucracies set the terms of trade, leading to arbitrary rules and unfair results.

What government does for trade policy is nothing compared to what individual businessmen can accomplish. The individual business owner is the backbone of international trade. My job as a government official should be to promote fair and transparent rules, not to decide winners and losers.

Fifth, free trade promotes democratic values. An open international trading system promotes bilateral and multilateral consultation and cooperation. It creates a framework for addressing and settling commercial disputes peacefully. It encourages procedural and substantive due process, administrative and judicial review, transparency, and the rule of law. Each of these fundamental features of a liberal trading system reflects fundamental American values.

They are essential features of a democratic society, and they lead to higher growth and development, allowing governments to better address the basic needs of their citizens. History has shown that protectionists and economic isolationists have not protected the environment, nor effectively addressed poverty, working conditions or worker rights – because many citizens are unable to find a job when an economy is protected by high tariff barriers and non-transparent and corrupt regulatory regimes.

Sixth, free trade promotes peace. Nations that trade together generally don't wage war against each other. The reason is simple. The more your own economic well-being is tied to your neighbor, the less likely you'll be to sever those ties. This is as true today as it was 50 years ago. Franklin Roosevelt noted in 1936 that the nations with the most restrictive trade policies were most apt to seek war as policy. As a result, he said, those nations believed the price of war seemed less than the price of peace.

The economic devastation caused by restrictive trade policies contributed strongly to a prolonged world war in which millions perished. Postwar trade policy has been an effort to undo those policies and help to secure peace. Both the General Agreement on Tariffs and Trade and the push for economic integration in Europe were founded upon the premise that trade brings peace. Fifty years later, we can see that premise is true.

Seventh, we must be diligent in protecting past gains from free trade and relentless in our pursuit of open markets. Fifty years of trade liberalization have served our people and our economy well. Our economy is far more productive than it's ever been. Our nation is wealthier and our general standard of living continues to rise. Yet, free trade and institutions that foster trade are under daily attack. Congressmen and Senators flaunt international trade dispute rulings and debase the institutions that espouse them. Presidential candidates disparage trade with developing nations as a net loss for America and vow to review past trade policy. Organized labor and some environmental groups wage a daily ground war against free trade. And so-called advocates for poor developing nations work to persuade the leaders of those countries that the path to economic prosperity lies in continued protectionism. We can't be passive in response. We must constantly make the case for open markets, not just inside Washington, but in every city, town and community in the nation. And we must fight aggressively to open new markets. Soon, the Senate will vote on

whether to approve free trade agreements with Australia and Morocco. I hope we will soon consider legislation to implement the Central American Free Trade Agreement.

Advocates of open trade need to reach out and make the case for these agreements. We need to send a signal to these nations and the world that we continue to believe in the power of trade to promote economic and political freedom. Next year, Congress will face two fundamental questions. First, do we abandon 50 years of trade liberalization by voting to withdraw from the World Trade Organization? And, second, do we continue trade promotion authority as a tool to open new markets? 2005 is a pivotal year for U.S. trade policy. Do we stop and review, or do we move forward to aggressively open new markets? While Congress does the voting, the decision is really up to each and every one of you. It comes down to this: Are you willing to fight for free trade or are you just a passive observer in the battle? How you answer that question may very well dictate whether our nation will continue to lead the world in support of free trade.

Our challenges today are great, but no greater than those that faced Cordell Hull so many years ago. He seized his challenges as opportunities. And, in doing so, he helped to create the institutions that lifted hundreds of millions of people out of poverty and contributed toward a half-century of reduced strife and increasing prosperity. Fifty years from now, I hope someone will look back and be able to say that you and I did the same.