

THE THIRD WAY ECONOMIC PROGRAM



**WHY LOU DOBBS IS WINNING**

*A Third Way Report*

*by*

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## **Authors and Acknowledgments**

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## Executive Summary

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In the aftermath of World War II, America was at the forefront of a global effort to build an interconnected world, linked through commerce and politics. The goal was to preserve the post-war peace, and its result was the birth of such internationalist institutions as the United Nations, the World Bank, the International Monetary Fund and what is now the World Trade Organization.

Today, this presumption of American global economic engagement has been badly weakened. Congress has struggled to pass relatively minor free trade agreements with such partners as Oman. Globalization and trade are under question, if not attack, and public support for open trade is low. Polls find, for example, that barely 1 in 10 Americans think that trade will create American jobs. And meanwhile, a new and powerful populist strain has emerged on both the left and the right of American politics that threatens to turn the nation fearful and inward, even though this course will inevitably lead to disastrous economic consequences for America and its middle class.

What happened? And how can the cause of open trade be resurrected before it is further diminished?

Over the next 12 months, Third Way will be releasing a series of reports that seek to answer these questions and to respond to the rising populist threat. Ultimately, we aim to construct a new policy and message approach that will effectively advocate for trade liberalization, while also offering policy solutions that will maximize trade's benefits for America and the middle class.

As a first step toward this goal, this report attempts to diagnose what is ailing free trade. We describe a variety of political and economic factors that have contributed to the rough environment for trade today. But we also pinpoint three potentially fatal problems in the way trade's advocates (amongst whom we count ourselves) are currently pursuing their cause:

- **We are guilty of a failure of vision.** The cause of open trade has been most compelling when linked to a broader political and economic vision. In the post-World War years, that goal was preserving the peace; during the Cold War, the goal was fighting communism. Today, the overall goal of American global engagement is far less clear, and trade's role in achieving that goal is murky. How do open-traders envision the world and America's place in it 20 years down the road? At the moment, we have no compelling answer.

- **Our battleground is data, not values.** Defenders of trade are losing public support in part because of their strategy and tactics. While critics of trade speak evocatively of “fairness” and “justice,” trade-liberalizers counter with economic numbers and opaque economic theories. It is not only elitist; it is like bringing a knife to a gun fight. It is not enough to win the minds of the public; we must win hearts as well.
- **Our policies do nothing to restore middle-class confidence in the future.** Middle-class economic anxiety is widespread and legitimate. And fairly or not, much of the blame for this anxiety is landing squarely on trade. As a consequence, advocates of trade must free themselves from the narrow silo of trade-specific policy and embed their goals in a broader agenda that addresses *all* of the sources of middle-class economic anxiety—as well as middle-class hopes for success. Reforming and expanding Trade Adjustment Assistance is necessary but far from sufficient. Americans have to feel secure and confident in their own economic future before they are comfortable reaching out to the world.

To turn the tide of public opinion and win renewed support for trade liberalization, advocates of open trade must confront these three challenges. We must restore confidence in America’s global leadership, offer a compelling and concrete roadmap to future middle class success in a time of broad global change, and ground our arguments in American ideals and values.

## Introduction

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*Free trade has been the most expensive trade policy this nation has ever pursued. There is nothing free about ever-larger trade deficits, mounting trade debts and the loss of millions of good-paying American jobs.*

— CNN personality Lou Dobbs<sup>1</sup>

During the 2006 election cycle, New York Democratic Congressional candidate Jack Davis ran an ad that was typical of many campaign ads that year. Against a grainy backdrop with stacks of cash and a shower of corporate logos, Davis accuses his opponent, Republican incumbent Tom Reynolds, of accepting funds from “multi-national corporations that are outsourcing our jobs.”<sup>2</sup> The ad then goes on to condemn Reynolds for “saying yes to CAFTA, yes to China and goodbye to 40,000 Western New York jobs.” It ends with a photo of a Chinese temple featuring the portrait of Chairman Mao and the following warning to voters: “Tom Reynolds says he’s creating jobs... in Beijing?” The last thing the viewer hears is a gong.

Although Davis ultimately failed to unseat his Republican rival, this ad is an effective example of the principal arguments now being advanced against trade. In a scant 30 seconds of airtime, the ad manages to invoke and reinforce many of the biggest anxieties Americans have about trade: that good American jobs will be “shipped” to India and China; that corporations are benefiting from trade while American workers are not; that U.S. trade policy benefits foreign countries at the expense of American interests; and that China is fast rising as an economic threat.

In the course of modern American history, “free trade” has never been overwhelmingly popular. But while its advocates have prevailed in the past, today free trade is in free fall. Despite some major victories in the last dozen or so years—the passage of NAFTA and the creation of the World Trade Organization, the approval of permanent normal trade relations with China and a handful of smaller trade deals since then—advocates of open trade are increasingly on the defensive. Meanwhile, “neopopulists”—who seek to thwart globalization and isolate America—are gaining ground.

Polls find that by a margin of 2 to 1, Americans think trade destroys more jobs than it creates.<sup>3</sup> A majority think NAFTA was a mistake.<sup>4</sup> Neopopulist alarmists such as CNN’s Lou Dobbs have won growing numbers of followers with their calls to seal off the borders to both trade and immigration.

And despite a flurry of successful votes on trade agreements with small-scale partners (Jordan, Morocco, Singapore, etc.), the Congressional agenda on trade is moving only in fits and starts, where it is moving at all. While a deal with Peru is potentially on track for passage by the end of 2007, the respective fates of free trade agreements with Panama, Korea and Colombia remain, at this writing, very much in doubt. The fast-track trade promotion authority that was hard won in 2002 expired with little fanfare. And the Doha round of global trade negotiations is on life support and in danger of dying altogether.

On both the political left and right, neopopulist politicians are perceived to be a potent bloc. Many on the left, for example, partly credit the neopopulist rhetoric employed by many candidates for the new Democratic majority won in 2006. And on the right, Congressmen Ron Paul and Tom Tancredo are both running insurgent campaigns for the presidency that have won surprising amounts of grassroots support.

Some of this protectionist resurgence is cyclical; isolationism has been a persistent and sometimes formidable force in American politics and policy since the nation's founding. "Repudiation of Europe is, after all, America's main excuse for being,"<sup>5</sup> in the words of novelist John Dos Passos, and it's no coincidence that "Independence Day" is our most significant national holiday. And throughout much of America's early history, isolationism was a dominant theme in its economic policy. During the post-Revolutionary era, no less than Alexander Hamilton argued for limiting trade ties with Britain on the grounds of preserving America's hard-won independence.<sup>6</sup> And until 1913 (when the income tax was instituted), tariffs were the federal government's single largest source of revenue.<sup>7</sup>

Americans have also traditionally resisted the notion of depending on or competing against foreigners for needed services and goods. And accordingly over the decades, various industries have made convincing arguments to shield themselves from the effects of international trade: wool producers in the 1940s; textile manufacturers in the 1950s and 1960s; automakers in the 1980s; steel in the first part of this decade, and so on.

The recent neopopulist surge, however, presents a unique threat to America's economic future and the future of the middle class. Past skirmishes over trade have generally left unchallenged the larger premise that America must remain engaged with the world—this is the legacy of the post-World War II internationalism that led to such globalist triumphs as the Marshall Plan and the creation of international

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institutions like the World Bank, the International Monetary Fund (IMF), the United Nations and the World Trade Organization (WTO).

What makes today's neopopulists so dangerous is their assault on this presumption of engagement. Today's neopopulists want much more than to protect specific industries or to tinker with U.S. policy toward specific competitor nations. They want instead a broad repudiation of America's global economic participation and to turn back the clock on globalization itself. Typical of this perspective is the following excerpt from a report titled, "A Better World is Possible! Alternatives to Economic Globalization," which sees globalization as nothing short of an apocalyptic crisis that "threaten[s] the fabric of civilization and the survival of the species":<sup>8</sup>

*Where corporate globalists see the spread of democracy and vibrant market economies, citizen movements see the power to govern shifting away from people and communities to financial speculators and global corporations dedicated to the pursuit of short-term profit. They see corporations replacing democracies of people with democracies of money, self-organizing markets with centrally planned corporate economies, and diverse ethical cultures with cultures of greed and materialism.<sup>9</sup>*

But history shows that no nation has prospered by turning inward, and there are innumerable examples of once-great civilizations—both ancient and modern—that have stagnated after closing their borders. Some of the most striking examples come from the histories of China and Japan—now among America's biggest economic rivals. After several centuries of expansion, China turned its back on the world in the 1400s by banning the construction of seagoing ships and eventually forbidding all foreign trade.<sup>10</sup> Its ensuing decline left it vulnerable to repeated invasions and stagnant economic growth. Likewise, Japan entered a period of social and economic stagnation after enacting a variety of closed-door policies, including banning the construction of seagoing ships in 1636 and forbidding the samurai class from travel.<sup>11</sup> Then there is America's own major experiment with protectionism—the disastrous Smoot-Hawley Tariff Act of 1930—which served to worsen the Great Depression, if not actually contribute to its cause.

In contrast, open policies toward trade and economic engagement have led the same nations toward wealth and power. As Benjamin Franklin put it, "No nation was ever ruined by trade, even seemingly the most disadvantageous."<sup>12</sup> From 1980 to 2000, as China began reforming its economy, real gross domestic product (GDP) grew at an average rate of 10% per year,<sup>13</sup> while the number of Chinese people living on less than \$1 a day dropped from 3 in 5 in 1981 to 1 in 4 by 2001.<sup>14</sup> Japan, which traded its military ambitions for economic power after the wreckage of World War II, grew its economy from 4% the size of America's in the early 1950s to the second largest in the world today.<sup>15</sup> And in the United States, where trade as a share of GDP has risen from

11% to about 30% over the last three decades,<sup>16</sup> real GDP has tripled from about \$4 trillion in 1970 to nearly \$12 trillion in 2006 (in 2000 dollars).<sup>17</sup>

To capitulate to neopopulism would be tantamount to our acceptance of America's diminished place in the future world. Protectionism will not, in fact, protect America, and the end result of a neopopulist victory will be nothing short of a long, slow decline for America's middle class and a lesser standard of living for all Americans.

So given the lessons of history, why is Lou Dobbs winning?

The answer is a perfect storm of shifts in the political and economic climate, the increasingly complex nature of modern trade, and a pro-trade movement that has lost favor in the face of an increasingly skeptical public.

In the aftermath of World War II, the internationalist case for global engagement was built on a desire to avoid another cataclysmic war, and trade was an obvious means to build national interdependence and preserve the peace. In the Cold War, trade became a tool in the fight against communism, as the U.S. sought to build ties with Eastern bloc countries and shut out Soviet influence. President Dwight Eisenhower, for example, believed that opening up U.S. trade with smaller communist countries could "drive a wedge between the Soviet Union and its satellites."<sup>18</sup>

Today, there is no similar sense of America's global mission. While the attacks of September 11 galvanized American resolve to defeat the forces of terror, America's confidence in its global stature has been badly shaken by the morass in Iraq, and there has been a colossal loss of faith in government and its leadership.

A newly uncertain economic environment has also helped to create a difficult climate for open trade.

Today's neopopulist ascendance is an opportunistic one that exploits the

legitimate anxiety the middle class now feels about the dramatic and radical changes sweeping the global economy. As we wrote in our earlier report, *The New Rules Economy*, the rules of middle-class success have changed, and many Americans feel largely on their own to cope with the new economy. Add to this a constant stream of media accounts about offshoring, deadly Chinese toys and poisoned pet food, and it's no wonder that so many Americans have had enough with "free trade."

Finally, open-trade advocates must bear some of the blame for neopopulism's current resurgence. The slide toward neopopulism has been both gradual and subtle,

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and the world has shifted under our feet without our notice. Although we have so far managed to win, we have become arrogant in our conviction that open trade brings unchallengeable and unalloyed benefits. Because of that arrogance, we have failed both to acknowledge some hard realities about the current political and economic climate and to answer the criticisms of trade skeptics convincingly.

Our policies and arguments in defense of trade have stayed static in the last few decades—even as the world around us has changed dramatically. We haven't, for example, proposed how to best handle the coming deluge of labor caused by Chinese and Indian workers entering the global economic mainstream by the billions. And while reforming the Trade Adjustment Assistance (TAA) program is necessary, we must keep in mind that TAA is a Kennedy-era program that's far past middle-age. Compensation after the fact is necessary but insufficient, and programs such as these will not convince Americans that trade's benefits outweigh its costs.

Open trade advocates have also lost the debate on values. While neopopulists and "fair" traders speak compellingly of "justice" and "fairness," we speak of dollars per household in economic gains, job growth and economic efficiency. Our numbers fail to convince Americans that trade benefits workers as much as consumers and that the benefits of trade to foreign countries don't come at the expense of America's interests.

To turn back the neopopulist tide, defenders of open trade must reinvent our thinking, our strategy, and our policies. And this begins with a hard look at how the neopopulists have come to gain their current advantage, including the uncomfortable knowledge that some of the seeds of today's protectionism were sown by trade's defenders, albeit inadvertently.

This debate is winnable if the advocates of open trade offer a new policy and message agenda that promotes trade liberalization while genuinely maximizing its benefits for the middle class. Only then will the tide turn in our favor.

## Thinking versus Feeling: Americans and Their Views on Trade

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When Americans are asked in general terms about their opinions toward trade and globalization, most polls find that a small majority of respondents are favorably disposed to trade. An April 2007 poll conducted by the Program on International Policy Attitudes (PIPA), for example, found that 54% of Americans think that, in general, trade is good for the U.S. economy.<sup>19</sup> And in 2003, 62% of Americans told pollsters from Pew that globalization in general is “very good” or “somewhat good.”<sup>20</sup>

But advocates of trade should not take too much comfort from these numbers. More specific questions reveal a deep-seated ambivalence—and even antagonism—toward trade. While Americans “think” that trade is “supposed” to be good for the economy (perhaps in the same way people think they’re “supposed” to eat more vegetables and pass on the Dunkin’ Donuts), they feel uncomfortable and anxious about what it means for them personally. They feel torn by the costs exacted on their fellow Americans who lose jobs for the sake of cheaper consumer goods. And they are resentful of the implication that in order for America to prosper, it must become *more* reliant on foreigners and foreign nations, not less.

In fact, much of what Americans feel about trade is exactly the opposite of the traditional arguments that trade advocates have made about trade’s benefits.

***What we argue:***  
**Trade creates jobs.**

***How Americans feel:***  
**Trade destroys more jobs than it creates.**

Job creation is a central argument made by advocates of trade. But Americans feel otherwise.

The 2007 PIPA poll cited above, for example, found that 67% of Americans think trade is bad for job security for U.S. workers and bad for creating U.S. jobs.<sup>21</sup> Similarly, only 12% of respondents in a December 2006 poll by the Pew Research Center said

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they believe trade creates U.S. jobs, and only 11% said trade leads to higher wages, while the remainder said trade either destroys jobs and lower wages or makes no difference.<sup>22</sup> And when it comes to specific trade deals like NAFTA, polls conducted in 2003 by Zogby and the Foreign Policy Association found that 55% of Americans say NAFTA has led to fewer jobs being created in the United States.<sup>23</sup>

Moreover, Americans seem to believe in trade's job-killing nature despite the fact that a majority of people also say they don't personally know anyone who's been hurt by trade. In 2004, 59% of Americans said they did not know anyone who has either lost a job or "seen their business suffer due to globalization and the growth of trade."<sup>24</sup>

**58% of Americans say that enacting wage insurance would *not* make them more supportive of trade.**

Conventional wisdom among trade advocates dictates that proposals to compensate the losers from trade—such as wage insurance—will serve to overcome Americans' fears. But there's some evidence that the conventional wisdom is misguided. While there isn't a great deal of polling on this issue, a 2004 poll by the Program on International Policy Attitudes found that 58% of Americans say that enacting wage insurance would *not* make them more supportive of trade. Moreover, 59% of Americans said they wouldn't support wage insurance in the first place.<sup>25</sup>

### *What we argue:*

**Trade barriers and tariffs stifle economic growth.**

### *How Americans feel:*

**Trade barriers and tariffs protect jobs.**

When asked in general about the wisdom of lowering tariffs, Americans will respond—as they do when asked in general about trade or globalization—that lower tariffs are better for America. A 2006 poll by the German Marshall Fund found, for example, that 64% of Americans believe lowering barriers to trade is either "very helpful" or "somewhat helpful" to our economy, while, just 27% feel it is "not very helpful" or "not helpful at all."<sup>26</sup> Americans also support lower tariffs if it is part of a quid pro quo. In 2004, 67% of Americans agreed that the U.S. should lower its trade barriers if another country agrees to do the same.<sup>27</sup>

Public opinion makes an about-face, however, when the question of tariffs is coupled with a rationale such as protecting American jobs or punishing competitor nations (and as the chart below shows, support for tariffs is currently at a 30-year high). A 2006 CBS News poll found that nearly two-thirds of Americans believe trade restrictions are "necessary to protect domestic industries,"<sup>28</sup> while a 2004 poll by the

Program on International Policy Attitudes found that 71% of respondents think import restrictions are justified if a product is “produced in a way that damages the environment.”<sup>29</sup>

And in the 1980s, when the flood of Japanese imports was perceived to be a serious threat, surveys found large majorities of Americans willing to support restrictions on Japanese goods. A 1989 Business Week/Harris poll found that 61% of Americans favored imposing higher tariffs on Japanese goods, and 69% favored limits on Japanese imports.<sup>30</sup> In 1987, 64% of Americans said they favored the new tariffs that were imposed on Japanese goods that year.<sup>31</sup>

Americans say they support these kinds of tariffs even at the cost of higher-priced goods. A 1986 poll found that even when respondents were told that tariffs cost the average American \$450 a year (\$827 in 2006 dollars), only 43% of tariff supporters said that knowing these costs weakened their support.<sup>32</sup>

<b>Percentage of Americans who believe “tariffs are necessary”</b>	
2006	64%
1998	49%
1996	60%
1994	48%
1986	53%
1982	57%
1978	57%

**(Sources: Surveys by New York Times/CBS News; Gallup/Chicago Council on Foreign Relations)<sup>33</sup>**

Moreover, Americans think tariffs are effective (again, the opposite of what trade advocates argue). In a 2004 UBS/Gallup poll, for example, 67% of respondents said they thought tariffs could be very or somewhat effective in preventing outsourcing by “discourag[ing] manufacturers from moving plants outside the U.S.”<sup>34</sup> In 1980, 57% of Americans said they thought “high tariffs to prevent the import of foreign goods” would help the then-moribund economy.<sup>35</sup>

***What we argue:***  
**Trade benefits consumers.**

***How Americans feel:***  
**Trade benefits corporations more.**

If there is one argument that trade advocates make that the public does believe, it is that trade benefits consumers through cheaper goods. But they also perceive consumers and wage-earners to be in conflict—lower prices come at the expense of jobs. A 2004 poll by the Pew Internet and American Life Project, for example, found that among respondents who had heard the argument that trade brings “better products and better prices,” Americans agreed by a 24-point margin.<sup>36</sup>

Unfortunately, the consumer benefits of trade don’t seem to outweigh what the public sees are worse costs, and in fact, surveys indicate that Americans say they are willing to pay more for goods in order to protect jobs. One 2005 survey bluntly pitted lower prices against American jobs by asking if respondents would “favor or oppose CAFTA... if it reduces prices you pay as a consumer but eliminates jobs for U.S. workers.” Three in four respondents said they would oppose the deal.<sup>37</sup> Similarly, in 2002, when survey respondents were asked to choose between “restrictions on imported foreign goods to protect American jobs” and “no restrictions to enable American consumers to have the most choices and the lowest prices,” twice as many people chose trade restrictions over lower prices.<sup>38</sup>

Americans also *claim* deep loyalty to “buying American.” Surveys find that three-fourths of Americans say they always try to buy American,<sup>39</sup> and smaller majorities say they would pay more for a higher-priced American product than for a lower-priced foreign one.<sup>40</sup>

The public is far less equivocal, though, in its beliefs about the benefits of trade for big business. A 1993 poll taken during the debate on NAFTA, for example, found that 55% of Americans agreed that “only big American corporations” would benefit from the deal (the same poll also found that Americans expected NAFTA to have no impact on illegal immigration and a negative impact on jobs).<sup>41</sup> Likewise, a 1997 poll found that by a 10-point margin, Americans believed that trade was more likely to “mainly benefit multinational corporations at the expense of average working families” than to “create exciting new economic opportunities for both U.S. producers and workers.”<sup>42</sup>

Perhaps as a consequence, two-thirds of Americans say they support restrictions aimed at punishing U.S. companies that build plants abroad, such as legislation or taxes aimed at discouraging U.S. companies from outsourcing.<sup>43</sup>

*What we argue:*

**Trade liberalization benefits America's global stature.**

*How Americans feel:*

**Trade weakens—rather than strengthens—America's global standing.**

Proponents of trade have often argued that engaging the world through trade and investment is critical to maintaining America's global standing and leadership. But many Americans feel the opposite—that trade diminishes America's standing by helping other countries prosper at American expense.

Polls show, for example, that Americans believe that trade benefits foreign countries far more than it does the U.S. The 2004 poll by PIPA, for instance, found that 52% of Americans think other countries benefit more from trade, versus just 17% who said the U.S. benefits more.<sup>44</sup> And in contrast to what Americans think about trade's destructive impact on American jobs, a 2005 German Marshall Fund survey found that 79% of Americans think free trade *creates* jobs in place like India and China.<sup>45</sup>

Americans are also particularly worried about the impact of increased foreign investment in the United States on national sovereignty and independence—an issue that first came to the forefront in the 1980s with the emergence of Japan (remember the sale of Rockefeller Center and worries over a potential follow-up bid for the Sears Tower?). In 1990, 64% of Americans said they thought increased Japanese investment in the U.S. was a "threat" to American economic independence,<sup>46</sup> 72% of Americans said they were "bothered" by Japanese ownership of American real estate, and 73% agreed that "if the U.S. government doesn't do something soon, the Japanese will end up owning most of this country."<sup>47</sup> A 1988 survey found that 75% of Americans believed that "increased Japanese economic involvement in the U.S. could some day give the Japanese too much influence over U.S. government policies."<sup>48</sup>

And in direct contradiction to reality, surveys from the early 1990s found that Americans blamed foreign ownership of U.S. companies as the leading cause of U.S. job losses.<sup>49</sup> A 1991 Cambridge Reports poll, for example, found that by an 11-point margin, Americans thought foreign investment decreases the number of jobs available to U.S. workers.<sup>50</sup> A 1991 survey by the Council on Competitiveness found that 73% of Americans thought that restricting foreign ownership of American property and companies would help the U.S. compete,<sup>51</sup> while a 1988 survey found that as many as 4 out of 5 Americans supported specific restrictions on foreign ownership of office buildings and hotels, oil and gas resources, television stations, auto companies, banks and farms.<sup>52</sup>

While nervousness about foreign investment looks to have peaked in the late 1980s, there is still lingering and even resurgent anxiety. In 1999, 52% of Americans agreed that foreign investment was "dangerous because it allows outsiders too much

control over our affairs.”<sup>53</sup> The controversies over the possible foreign management of U.S. ports in 2006 and the threatened takeover of U.S. oil company Unocal by the Chinese state-owned oil company CNOOC in 2005 also indicate lasting anxiety about foreign investment and ownership.

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The attitudes toward trade described above are not the result of a sudden shift in public opinion; Americans have always been somewhat reluctant to embrace open trade.

Public support for tariffs, for example, is actually not a recent phenomenon born of animosity toward Japan or as a reaction against cheap imports from China. Even at the height of our nation’s internationalist period—during the post-World War II era—support for tariffs has been robust. A 1947 Gallup poll found, for example, that 49% of Americans said they favored high protective tariffs on some goods,<sup>54</sup> compared to 30% who said tariffs should be low. In 1953, 83% of Americans said the U.S. should not “do away with” all tariffs.<sup>55</sup> (Tariffs have, after all, been a time-tested tool since the nation’s founding.)

But the intensity of distrust and anxiety toward trade certainly has heightened in recent years, even in comparison to the near-hysteria of the 1980s, when Japan was making its first assault on America’s economic dominance. In that instance, antagonism toward trade basically had a single focus (Japan), whereas today, there are multiple sources of anxiety over trade: numerous competitor nations, an amorphous threat of off-shoring that isn’t industry-specific, etc. And there are other differences that are serving to magnify current public apprehension toward trade.

First, the cause of open trade currently lacks a strong and charismatic political champion, and the success of any efforts at trade liberalization is almost directly correlated to the strength of the current leadership. President Bill Clinton, for example, who was one of this century’s most eloquent and ardent defenders of open trade, pushed through NAFTA, successfully promoted the creation of the WTO and led the effort to bring China into the global trading system.<sup>56</sup> And rather than fight his battles by proxy through his staff, Clinton invested tremendous personal capital into achieving his goals on trade, including by maintaining close ties with leaders in Congress and personally courting supporters to his cause. Vice President Al Gore’s victory over the popular and populist Ross Perot in the well-known NAFTA debate of 1993 is a seminal example of the power of this kind of leadership during the Clinton era.

**The current resurgence of public loss of faith in open trade coincides with a near-historic loss of faith in government.**

President George W. Bush also managed some victories for trade in 2002, when he was near the height of his popularity. Most significantly, he won passage of the Trade Act of 2002, which among other things included a long-sought extension of trade promotion authority and the most comprehensive overhaul of TAA since its inception. Today, however, Bush is currently history's second most unpopular president (next to Nixon).<sup>57</sup> In July 2007, his approval rating hit a low of 29 percent and now stands in the low 30s.<sup>58</sup> Consequently, his current calls for another extension of trade promotion authority have so far received little attention by Congress.

Second, the current resurgence of public loss of faith in open trade coincides with a near-historic loss of faith in government. A March 2007 poll by the Pew Research Center found that 62% of Americans believe that "when something is run by the government, it is usually inefficient and wasteful,"<sup>59</sup> while a similar poll by Greenberg, Quinlan, Rosner poll found that 57% of Americans believe that government makes it more difficult for them "to get ahead in life," compared to the 29% who see government as an ally.<sup>60</sup>

While Americans have always been somewhat ambivalent about government, Americans now also feel that government is incompetent. The ongoing war in Iraq, the debacle of Hurricane Katrina and numerous other recent failures of government have only reinforced the notion that the federal government is incapable of protecting its citizens' interests at home, let alone abroad or in contests with rival powers.

Third, the consensus in support of open trade among academic elites is showing some fissures. Some of trade's most ardent proponents in the past—Alan Blinder, Lawrence Summers, Paul Samuelson and Paul Krugman—to name a few, now hold more nuanced positions that acknowledge the legitimate downsides of trade.<sup>61</sup> Blinder, for example, has garnered significant publicity for his estimates that between 30 and 40 million American jobs are potentially vulnerable to off-shoring.<sup>62</sup> This shift in focus has provided ammunition to trade's opponents, who are working to reinforce public doubts by claiming (in overstated fashion) that trade's defenders are abandoning ship.

Fourth, concerns about trade have become conflated with concerns about illegal immigration, thanks in large part to the efforts of neopopulists such as Lou Dobbs and Republican Congressman (now presidential candidate) Tom Tancredo, whose platforms advocate isolationism in all its forms. In June 2007, 15% of Americans rated "immigration/illegal aliens" as the number one problem facing the country.<sup>63</sup> Until around 2005, only 2-3% of Americans had considered illegal immigration to be a top concern.<sup>64</sup>

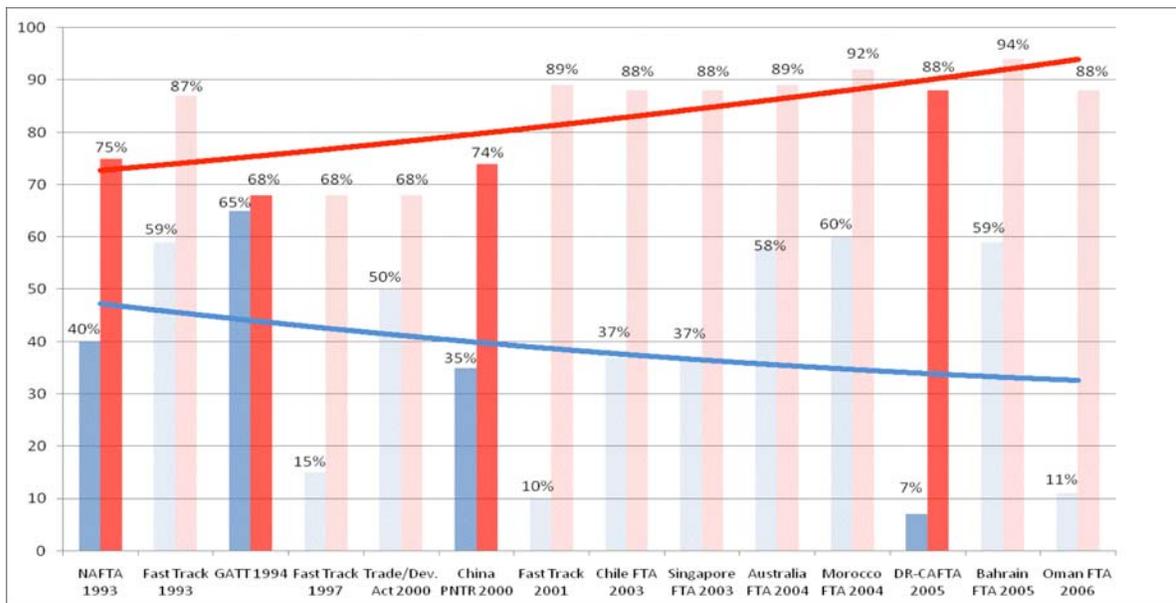
Fifth, there is no denying the impact of the terror attacks of September 11, which defeated any notions of American complacency and convinced many Americans of a newly dangerous and unpredictable world. In this environment, it is no wonder that many might believe that the best way to protect America from its many enemies is to

shut the world out altogether. In January 2007, Third Way commissioned a survey gauging public opinion on America’s current role in the world. One of the most striking findings from this poll was the erosion of public confidence in America and its leadership. Only 32% of respondents said they believed that America is always “a force for good in the world.” And in a blow to the longstanding belief in American exceptionalism, respondents agreed by a margin of 58% to 36% that “it is a dangerous illusion to believe that America is superior to other nations.”<sup>65</sup>

And finally, the Democratic Party—the party that has historically been the party of open trade for most of the 20<sup>th</sup> century—is turning its back on trade. Given the current rhetoric coming from some Democratic activists, it may be hard to remember that it was *Republicans* who were responsible for passing the Smoot-Hawley Tariff Act of 1930, and Republicans who, until the time of Nixon, were more likely to be the champions of protectionist legislation. While Republican Congressional support on trade has remained relatively constant (despite the increasing vociferousness of neopopulists on the right), the losses have been particularly severe on the Democratic side of the aisle, even as the trade agreements coming to the floor have diminished in their significance.

### Trends of support for trade within each party in the House (1993-2006)

(Based on percentage of party votes in favor of each bill or agreement; Democrats in blue, Republicans in red)



Percentage is calculated based only on votes cast, i.e. no-votes are not considered in the figures.

Source: Congressional Record.

In 1988, for example, an overwhelming majority of both House and Senate Democrats voted in favor of implementing the U.S.-Canada Free Trade Agreement.<sup>66</sup> But in 1993, only 40% of House Democrats and 49% of Senate Democrats voted for the

passage of NAFTA. The overall decline worsened in 2005, when only 7% of House Democrats and 23% of Senate Democrats voted for DR-CAFTA.

In the aggregate, these factors, coupled with baseline public skepticism toward open trade, mean that the current climate is rough for trade liberalization. But as we argue in the following section, open trade need not be defeated.

## Why Lou Dobbs Is Winning

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In the previous section, we listed a variety of political and economic factors that have contributed to the public's current reluctance to embrace open trade. While trade advocates have little control over some of these factors, there are three major—but fixable—problems in the way that proponents of trade have advocated their position:

1. **Trade proponents lack a compelling political or economic vision.** Trade liberalization has best succeeded in the past when linked to a larger goal (e.g., fighting the Cold War). Today, trade lacks connection with either a compelling political or moral rationale or a concrete vision of how it will benefit American middle class as workers and citizens, not just as consumers.
2. **Trade proponents see numbers; trade's critics see people.** "Fair" traders fight with values; free traders fight with data. This is like bringing a knife to a gunfight. As a consequence, our arguments are elitist, our numbers are unconvincing, and Americans don't think the economic benefits of trade are worth the social and moral costs.
3. **The policies offered by trade's proponents sidestep middle-class worries.** The trade policies and proposals currently advocated by the defenders of trade don't adequately address middle-class anxieties about the costs of trade to Americans personally or to America's interests in general. Trade advocates must shed the notion that simply compensating the losers of trade or building a bigger safety net is sufficient to solve the problem (much less buy public support)—it is not.

We do not attempt in this paper to offer a cure as well as a diagnosis—that is a task for future reports to be released over the next 12 months. In the pages that follow, we instead seek to define what we believe is the nature of the problem facing advocates of trade and perhaps plant a few guideposts for the way forward.

### **PROBLEM #1: The "vision thing"**

*Policymakers in the past have tended to treat trade as an adjunct—and sometimes a centerpiece—of their larger strategy toward global engagement. And in the past, this linkage between trade and foreign policy has worked in favor of greater liberalization. Today, open trade lacks an anchor in a larger political goal that both justifies America's global engagement and enjoys broad popular support. As a result, support for trade liberalization has eroded. Without the additional support of a political (or moral) justification, the economic rationale for open trade is insufficient on its own to trump*

*America's current inclination toward isolation. Supporters of open trade must create and advocate a new long-range vision that vividly illustrates how America and Americans will benefit from expanded trade.*

Decisions on U.S. trade policy have rarely stood alone. Rather, trade policy has historically—and intentionally—been intertwined with American foreign policy (and in fact, negotiating trade agreements was a function of the State Department until the creation of the office of the Special Trade Representative in 1963).

In the past 60 years, this strategy has worked to advance the cause of trade; larger political goals with broad popular consensus have often served to justify less popular initiatives on trade.

In the years during and after World War II, for example, trade was sold as a means for preventing a relapse into war.

Presidents Franklin D. Roosevelt and

Truman argued for a policy of active global engagement as a means of keeping the

peace, and trade liberalization was a central part of that strategy. As President Truman put it, “We have learned to fight with other nations in common defense of our freedom. We must now learn to live with other nations for our mutual good.”<sup>67</sup> By making a compelling argument that trade fostered the interconnectedness between nations that was necessary for avoiding war, American policymakers were able to lead the charge in creating the Big Three internationalist institutions that are now the targets of the anti-globalization movement: the World Bank, the IMF and, later, the General Agreement on Tariffs and Trade (GATT), the precursor to what is now the World Trade Organization (WTO).

Likewise during the Cold War, trade was put in service to the larger cause of fighting the spread of communism. In 1962, President John F. Kennedy warned that America would be unable to serve in its rightful role as the leader of the free world if it succumbed to protectionism. Supported by this rationale, Kennedy’s administration eventually succeeded in passing the Trade Expansion Act of 1962, which created the Trade Adjustment Assistance program, the office of the Special Trade Representative (now USTR) and granted the President unprecedented powers to negotiate with other countries to lower tariffs (an early version of “fast track” trade promotion authority).<sup>68</sup> “Economic isolation and political leadership are wholly incompatible,”<sup>69</sup> Kennedy declared.

President Ronald Reagan also used the Cold War rationale in justifying his own policies toward more open trade. In Reagan’s famous speech before the Brandenburg Gate in Berlin, in which he demanded that Soviet President Mikhail Gorbachev “tear

**President John F. Kennedy warned that America would be unable to serve in its rightful role as the leader of the free world if it succumbed to protectionism.**

down [the] wall," the President also extolled the virtues of tearing down barriers to trade, thereby equating trade with democratic values and freedom:

*"The German leaders reduced tariffs, expanded free trade, lowered taxes... Where four decades ago there was rubble, today in West Berlin there is the greatest industrial output of any city in Germany—busy office blocks, fine homes and apartments, proud avenues, and the spreading lawns of parkland... After these four decades, then, there stands before the entire world one great and inescapable conclusion: Freedom leads to prosperity."*<sup>70</sup>

Buttressed by this rationale, President Reagan went on to help initiate the Uruguay Round of the GATT (which was eventually completed successfully in 1994), as well as usher in a new era of bilateral trade agreements, including Israel in 1985 and Canada in 1988.<sup>71</sup>

But then the Berlin Wall did fall, as did the Soviet Union thereafter. Communism receded as a threat, as did the likelihood of global war, and with these shifts the historic rationale for expanded trade accordingly diminished in significance, while the perceived costs of trade began to stand in ever sharper relief.

Today, with the Cold War over and the war in Iraq standing as a rebuke to American efforts to spread democracy by force of arms, the United States lacks a clearly articulated sense of global purpose to which open trade can be tethered and from which Americans can clearly see the benefits.

During the debate over DR-CAFTA, for example, proponents of the deal relied on a smorgasbord of rationales—to "provide more prosperity in our hemisphere," be "a good deal for American workers and business owners and farmers," and "help spread democracy and peace"<sup>72</sup>—rather than a single over-arching narrative. (These rationales were, by the way, from a single paragraph from a single speech in favor of the agreement.) When such disparate rationales are juxtaposed in this fashion, the effect is to diminish the persuasiveness of each argument as a stand-alone reason to expand trade.

Another example of a less-than-convincing political objective is the commonly articulated goal of rewarding countries that have made advances in human rights or other areas for their good behavior—such as Pakistan and Colombia. In the days following the September 11 attacks, the United States rewarded Pakistan for its solidarity in the war on terror with more generous import quotas for Pakistani textiles (although the final deal was still far short of Pakistan's request for a suspension of all textile tariffs through 2004).<sup>73</sup> As for Colombia, President Bush was quick to link Colombia's good behavior to the privilege of trade with America. During a 2006 visit of Colombia's President Alvaro Uribe to the White House, Bush applauded Uribe, saying

he is “committed to human rights,” before moving directly to the topic of the U.S.-Colombia FTA.<sup>74</sup>

The difficulty with this rationale is that it does not address—and instead reinforces—the public belief that trade benefits foreign countries more than it benefits America.

While fighting the war on terror could potentially serve as a compelling political goal, the connection between trade and stopping terror has not been articulated convincingly. Take, for example, the U.S.-Oman Free Trade Agreement, which President Bush and Administration officials promised would “strengthen national security,”<sup>75</sup> “encourage economic reform in a moderate Muslim nation”<sup>76</sup> and “promot[e] freedom in the Middle East.”<sup>77</sup> Although this agreement managed to pass in 2006, 205 members of the House, including 89% of voting Democrats, and 37 members of the Senate, including 71% of voting Democrats, voted against the deal.<sup>78</sup> This is despite the fact that Oman is a country with a population roughly 1/100<sup>th</sup> that of America’s, an economy about 1/500<sup>th</sup> the size of ours,<sup>79</sup> ranks 88<sup>th</sup> on the list of America’s trading partners<sup>80</sup> and in no way represents a threat to American jobs.

Connecting the dots between trade liberalization and combating terrorism is admittedly not an easy task. Because the enemy is stateless, and the threat amorphous, it is far from obvious to ordinary Americans how trade can be deployed to defuse the potential for terror. The argument for a free trade agreement with key nations in the Middle East is less

compelling if the next perpetrators of an Al-Qaeda-sponsored attack are as likely to be working out of an apartment in Hamburg or London as they are out of Riyadh.

We do not intend to argue that trade advocates need to conjure up a new threat on the scale of the Cold War or World War II in order to win renewed support for trade. But we do believe that trade advocates can

and must construct a larger, positive vision for America and Americans that describes America’s place in the world and how open trade can help bring that vision to fruition. This vision is critical if advocates of open trade are to regain their advantage. Because trade and foreign policy are now so indelibly linked, an economic rationale for trade by itself will not suffice.

Having a compelling vision will also help to counter the competing worldview that trade’s opponents advocate. The phrase “fair trade” by itself evokes a vivid set of values, as well as a picture of what a fair trader’s ideal world should be—a world based

**Trade advocates can and must construct a larger, positive vision for America and Americans that describes America’s place in the world and how open trade can help bring that vision to fruition.**

on compassion, economic justice, recognition of human rights, etc. It is a vision that “economic growth,” for example, does not and cannot trump.

Finally, having this vision can help trade advocates cut through the “noise” generated by the complex, crowded and contentious nature of trade in the 21<sup>st</sup> century by providing an overarching framework for negotiation. Reaching a global consensus on trade is much tougher than it used to be. In Roosevelt’s era, trade policy largely focused on one thing: tariffs. And because so many parts of the world were still essentially closed to trade at the time, it was much easier for advocates of trade to paint a contrast between the then-status quo and a more open world. Today, the global economy *is* largely internationalized, and further progress—relative to 50 years ago—is achievable largely at the margins. As a result, modern trade negotiations cover more obscure territory such as trade remedies, government procurement, intellectual property rights, trade in services, and other non-tariff issues.

Another complicating factor is the sheer number of countries now involved in global trade talks. In decades past, the direction of the GATT negotiations was mostly determined by an elite community consisting primarily of the U.S., the European Community (EC), and a few other advanced nations.<sup>81</sup> Today, decision-making power is more widely diffused among 151 member countries.<sup>82</sup> Finally, special interest stakeholders in trade—agriculture, labor, environmental organizations, etc.—have become louder, better organized and more numerous. All of these complications serve as distractions to greater trade liberalization.

In future Third Way reports, we will explore the potential contours of the vision trade advocates might champion. But at a minimum, this vision must:

- **Help to restore confidence in America and America’s global leadership.** As long as Americans feel insecure about our nation’s place in the world, they will remain inclined to isolation over engagement.
- **Describe a compelling and concrete promise of future middle-class prosperity.** Advocates must do more than talk about jobs or economic growth. Trade liberalization must be linked to a tangible vision that reflects the long-term aspirations and optimism of the middle class and that is focused on helping middle-class Americans achieve their goals.
- **Be grounded in American values and ideals.** During the Cold War, President Reagan achieved this objective well with his linkage of trade and freedom. In the same vein, trade advocates must define and articulate a new set of values that undergird the larger goals of trade liberalization in the 21<sup>st</sup> century.

## **PROBLEM #2: Failing to win hearts as well as minds**

*Critics of trade rely on emotional appeals to stoke popular anxieties about trade. Defenders of trade, however, rely on less effective arguments based on numbers, academic*

*theories and data to convince Americans of trade's benefits. As a consequence, champions of open trade have lost the debate on values. Advocates of trade must articulate a clear set of values that can match or trump the ideals that critics of trade purport to champion. We must also craft an effective values-based critique of neopopulism if they are to persuade Americans of protectionism's dangers.*

More than two centuries ago, economists Adam Smith and David Ricardo conclusively established the advantages of specialization and trade. No one questions, for example, that a person is better off trading his labor for money to buy food and clothes rather than try to produce food and clothes on his own. Likewise, if America is more efficient at making software than at making socks, America is better off making more software and trading for socks than trying to also make socks.

Because the facts seem to be so incontrovertibly in favor of expanded trade, trade advocates have traditionally relied on *rational*, but soulless, appeals to make their case: trade will create jobs; trade is efficient; trade will make the economy grow. Take, for example, the following excerpts from Congressional testimony and other statements defending trade:

*CAFTA will create new opportunities for U.S. workers and manufacturers. More than 80 percent of U.S. exports of consumer and industrial goods will become duty-free immediately, with remaining tariffs phased out over 10 years....*

*Only 5% of the global population lives in the U.S. That means that 95% of our potential market is outside the U.S....*

*One in ten jobs in the U.S is dependent on exports. One in five factory jobs is trade dependent. These jobs pay between 13-18 percent more than average wages. ... These are figures workers need to know.<sup>83</sup>*

Opponents of trade, on the other hand, aim not for the brain but the heart. They argue that trade is "unfair," based on "false promises," "immoral," and the profit-making tool of "greedy international corporations." They evoke specific, vivid and emotional images of trade's "victims": factory workers who've lost their jobs, children in sweatshops, underpaid laborers in developing economies. One particularly effective ad produced by Oxfam depicts an African coffee farmer who angrily hurls a handful of coffee beans over a cliff. In lieu of a voiceover, a series of captions set to pounding music reads, "When you buy a \$2 cappuccino, this farmer won't even get two cents. Someone is making money, but it's not him. Make trade fair."<sup>84</sup>

Who is the more convincing figure—the African coffee farmer or the worker earning 13-18 percent more in wages because of export revenues from trade? Which is more compelling—"economic growth" or "fairness"?

As psychologist Drew Westen writes in his recent blockbuster, *The Political Brain*: "In politics, when reason and emotion collide, emotion invariably wins."<sup>85</sup> And as our

summary of public opinion on trade shows, there is little question whose side is currently more effective.

To find out why, we spent many hours analyzing the tactics and messaging of both sides of the debate. What we found was that critics of trade have put to effective use six strategies that advocates of trade do not currently use in their messaging. These strategies are ones that advocates of trade should also adopt if they are to become more effective in reaching their intended audience.

### **A powerful set of positive values to describe their position.**

In addition to “fairness,” the values that are both implicit and explicit in the arguments of trade critics include such compelling notions as “justice,” “respect for fundamental rights,”<sup>86</sup> and “loyalty” to American workers and America. “Fairness” is also embedded in calls by critics of trade for tougher labor and environmental standards in trade deals—the stated rationale being that such standards would put American workers on a “level playing field” or end a “race to the bottom.” As champions of “fairness,” critics of trade are also able to position themselves as defenders of the powerless and vulnerable. Advocates of open trade, on the other hand, lack an equally compelling set of values to justify their position.

### **A powerful set of negative values to describe the opposition.**

The critique of free trade used by its critics is equally value-laden. Free trade is “soulless commerce”<sup>87</sup> that “batters”<sup>88</sup> and “devastates”<sup>89</sup> families and leads to the “dehumanization”<sup>90</sup> of workers. The WTO is an anti-democratic “corporate dictatorship.”<sup>91</sup> Other countries cheat by supplying “cheap, lower quality” goods and “manipulat[ing] currency levels” at will.<sup>92</sup> Advocates of trade are dishonest because of “lies by the spokespersons for the multinational corporations that benefit from its free trade agenda.”<sup>93</sup>

In contrast, defenders of trade do not have an effective critique of the protectionist position, nor do they effectively rebut the negative values assigned to their cause. To the extent that advocates of trade engage in any criticism of the other side at all, our critiques are generally limited to factual assertions (i.e. “they’re wrong about the data”) or the charge of naiveté (i.e., “it’s futile to stop globalization”). Some advocates of trade have attacked trade’s critics as “fearful,” which is a potentially effective criticism except that it leaves too many dots unconnected and presumes too much knowledge about the impacts of protectionist policies.

**It doesn’t matter if NAFTA destroyed 1 million jobs or only 1,000 because the larger message stands unassaulted even if the numbers are grossly wrong.**

## **Data deployed in the service of values.**

In contrast to advocates of trade, for whom data *are* often the message (e.g., “ABC agreement is good because it will create XYZ number of jobs”), critics of trade use data primarily in support of their assertions about the motivation and values of free traders. For example, the oft-cited data point that NAFTA has destroyed 1 million jobs is used to buttress a larger message such as “big corporations don’t care about American workers.”

One reason this tactic is so effective is that value propositions are inherently hard to disprove. In fact, it doesn’t matter if NAFTA destroyed 1 million jobs or only 1,000 because the larger message stands unassaulted even if the numbers are grossly wrong. The point still stands that trade opponents appear to care more about American jobs, even if the number of jobs they seek to protect is in reality orders of magnitude smaller than what they claim. This is why our attempts to fight back by “disproving” the numbers touted by trade opponents often fail to find much resonance with the public.

On the other hand, a wholly data-driven argument that lacks an anchoring value can be uniquely vulnerable because it exposes the data to strict scrutiny by putting it center stage. (There is nothing to attack *but* the data.) In such a circumstance, flaws in the data can destroy the credibility of the entire argument as well as the credibility of its proponents. And in fact, one of the key arguments used by opponents of trade is that free trade’s defenders deliberately overstate trade’s benefits (and are therefore liars—yet another values attack).

## **Anecdotes versus abstraction.**

It’s true that a single picture is worth a thousand words; critics of trade commonly use powerful, vivid and personalized images such as laid-off factory workers and children in sweatshops. They also employ anecdotes as data and have the advantage of using bad news, which has far more psychological impact than good news (a single factory closed by trade can override evidence of thousands of newly created jobs). Advocates of trade, on the other hand, often talk about the number of jobs created in the aggregate rather than focusing on personalized stories of success. And on the flip side, we often fail to paint a sufficiently vivid picture of what the world would look like in the absence of trade liberalization, or if America were to retreat backward.

## **A focus on ordinary Americans.**

Critics of trade center their arguments on the impact of trade on *people*—whether it is jobs, incomes, or working conditions. Advocates of trade, on the other hand, tend to center their arguments largely on the benefits of trade to business and the economy at large. While arguments based on the price and availability of consumer

goods are about the impact of trade on people, it is not a compelling benefit in comparison to the threat of lost jobs or lower wages.

### **A monopoly on the terms of the debate.**

Advocates of trade, when we talk about “trade,” are referring only to goods but to services, which can include everything from video games to IT consulting to legal and financial services to Hollywood movies. In fact, services trade is the one aspect of modern trade in which America has a commanding and growing advantage.

### **Americans know the rules for success have changed, and they are nervous about their ability to navigate these changes on their own.**

But when most Americans think of “trade,” they are most likely to be thinking only of goods (i.e., toys, clothes, televisions, cars, etc.), and this narrow mental framework poses a critical advantage for trade’s critics. For one, it means that what first comes to mind for most people are the aspects of trade in which America is “losing” in terms of

jobs and imports (rather than the aspects of trade in which America is far ahead of its competitors). It also means trade critics hold the high ground in having defined the terms of the debate—they’ve not only drawn the sandbox but brought the sand, the buckets and the shovels. A critical challenge for trade’s advocates will be to redefine the very meaning of the word “trade” so it means much more to the average American than simply fleets of container ships filled with toys and consumer goods.

### **PROBLEM #3: A need for new policies to maximize trade’s benefits for the Middle Class**

*Middle-class anxiety is deep and widespread. It is rooted in worries about the changing nature of the economy (including the impacts of globalization and trade) and the changing rules for middle-class success. Moreover, the widespread public attention given to the trade deficit, to rising inequality and other indicators of potential weaknesses in the American economy have served to confirm Americans’ worst fears about trade. To advance trade liberalization effectively, advocates of open trade must offer a full set of policies designed to address and overcome middle-class anxieties. Trade-specific remedies such as expanded TAA are not sufficient to address these concerns, nor are they effective in convincing middle-class Americans that trade is worth the potential costs.*

As we wrote in our earlier report, *The New Rules Economy*, America is on the cusp of a transformational shift in the economy. Americans know the rules for success have changed, and they are nervous about their ability to navigate these changes on their own. Moreover, troubling signs on the horizon have begun to test Americans’ fundamental optimism. While household incomes have continued to rise, wage

growth has nonetheless been slow. Income inequality is at its highest in more than half a century. And when Americans look to the impacts of trade, they perceive other evidence of America's potential weakness, such as a soaring trade deficit and widespread accounts of the off-shoring of American jobs.

Americans still enjoy a quality of life that is virtually unrivalled in the world. And with each passing generation, Americans have always surpassed their elders in living standards and income. Nevertheless, America's middle-class is anxious about its economic future. This anxiety is the principal fuel for neopopulism, which seeks to advance its agenda by inflaming middle-class worries and thereby setting the stage for a broad-based backlash to globalization and engagement.

Yet there is little in the agenda advanced by trade's advocates that is targeted to ameliorating middle-class anxieties. In fact, perhaps the biggest problem with trade policy today is that it basically only deals with trade.<sup>94</sup>

There are three principal elements of the "standard" policy agenda advanced by advocates of trade: (1) to open markets and lower barriers to trade; (2) to better enforce existing obligations (e.g., intellectual property protection); and (3) to expand the safety net for workers hurt by trade. Only one of these elements is targeted to people (rather than business), and its goal is to mitigate the fear of loss rather than to maximize the potential for gain. Moreover, current proposals are inadequate in addressing middle-class anxieties.

Most proposals for expanding the safety net involve some variation of reforming or enlarging the Trade Adjustment Assistance Program, such as by extending it to service workers or including a wage insurance benefit to supplement the incomes of workers who take lesser-paying jobs after losing a job to trade. A common critique of these proposals is that they offer benefits that are either too little or too late (i.e., "burial insurance"), but the real problem is that these proposals misdiagnose the nature of middle-class anxiety. Despite their belief that trade destroys American jobs, middle-class Americans don't necessarily worry about losing their *own* jobs to trade. A 2004 UBS/Gallup poll found, for example, that only 10% of Americans say they are very worried about losing their job to outsourcing, and 64% are not worried at all.<sup>95</sup> In fact, unemployment is generally no longer the major worry for middle-class workers that it once was, such as during the 1970s and 1980s when the unemployment rate averaged nearly 7%.<sup>96</sup> In 2006, 89% of Americans reported that they were not too likely or not at all likely to lose their job or be laid off, and less than 4% said that a job loss was "very likely."<sup>97</sup> TAA, however, was created during a time of higher unemployment and employment volatility and is targeted primarily toward workers losing their jobs. It is precisely for that reason that the program is less relevant to addressing middle-class anxieties.

For most in the middle class, their fear is not the fear of failure—and with it the possibility of bankruptcy and poverty—but the fear of not being able to *succeed* in the

changing rules of the new economy. In our report *The New Rules Economy*, we lay out the details of these new anxieties: the imperative for more and better education and to acquire and update skills and increase earnings; the expectation of a career with multiple employers instead of lifetime tenure at a single job; worries over rising health care costs; the challenge of balancing work and family in two-career households; and the new responsibilities of managing retirement security in a world where traditional pensions are rapidly becoming obsolete.

Expanding the safety net is a critically important and worthwhile goal, and we do not intend in any way to diminish the importance of reforming TAA. But to regain middle-class acceptance of open trade, trade policies must fully and adequately address the full set of anxieties now experienced by the middle-class (as well as acknowledge its aspirations), above and beyond the threat of losing a job to trade.

First, by failing to address the fears of middle-class Americans, proponents of trade leave room for neopopulists to propose wrongheaded solutions, such as drastic, across-the-board tariff increases, withdrawing the U.S. from agreements that are already in place, such as the NAFTA and WTO, or stiff restrictions on immigration. Trade advocates should not leave a vacuum that Lou Dobbs is only too happy to fill.

Second, as we argued in the previous section, trade policy cannot stand divorced from a larger context. So long as middle-class Americans are anxious about holding on to their own, they will be reluctant to embrace open trade. Only when people are feeling secure will they set aside their innate tendencies toward isolation and embrace the world. In his book, *The Moral Consequences of Economic Growth*, Benjamin Friedman makes a compelling case that during times of economic growth, people tend to be more expansive, generous and tolerant, and during times of stagnation and anxiety, people turn inward—even if their absolute standards of living are still good by any measure. As Friedman puts it, “being rich is no bar to a society’s retreat into rigidity and intolerance once enough of its citizens lose the sense that they are getting ahead.”<sup>98</sup>

Indeed, looking back through the last several decades, advances in trade liberalization have generally been accompanied by an optimistic economic climate in which ordinary Americans felt confident of their future. While we don’t argue a *causal* relationship between good economic times and trade liberalization, we do think that having a middle-class that feels secure about its economic future is a necessary condition for trade liberalization to move forward.

During the internationalist era immediately following World War II, for example, real per capita income grew on average by 2.4% per year from 1948 to 1973, while real median family income rose from \$20,600 to \$43,200 (in 2005 dollars).<sup>99</sup> Likewise, at the time of the passage of NAFTA in 1993, President Clinton managed to persuade Americans during a time of recession that good times were around the corner, and that expanded trade deal would help the American economy out of bad times. And by

2000, when China PNTR passed Congress, Americans were enjoying the height of the tech boom, per capita income had increased on average by a healthy 2.6% per year, and unemployment had dropped to a 30-year low. (It is also worth noting, as Benjamin Friedman points out, that China PNTR passed fairly easily despite the fact that our trade deficit in goods had reached a then-record of \$452 billion—a good chunk of which was due to trade with China.<sup>100</sup>)

Conversely, waves of protectionism seem to tend to be accompanied by economic anxiety and bad times. From 1973 to 1993, which Friedman calls “the backlash era” following the oil shocks of the early 1970s, increases in per capita income slowed to just 1.7% per year, while average wages stagnated or even declined. It was during this period—which coincided with a flood of new, fuel-efficient Japanese cars into the U.S. auto market—that protectionists began to call for (and succeed) in their demands for limits on foreign imports to protect domestic industries. One result of this increasing pressure was Japan’s eventual agreement to limit its exports in the early 1980s.<sup>101</sup> And of course today, the recent worries over the subprime lending industry and the collapse of the housing boom, coupled with a period of flat wages and lackluster growth, are contributing to Americans’ feeling that they are failing to move ahead, despite reasonably healthy numbers for the overall economy as a whole.

While we don’t try to offer any concrete policy solutions in this paper—that objective is reserved for future reports—we do believe that advocates of open trade must offer a new set of policy ideas that set out to achieve the following goals:

- **Restore the confidence of the middle class by addressing all of the sources of middle-class anxiety, not just those directly related to trade.** 21<sup>st</sup> century trade policies must go beyond simply compensating the losers of trade and instead aim to enhance the overall security and confidence of the middle-class in its economic future. An example of a good first step toward this agenda is the competitiveness legislation introduced by Sen. Max Baucus (D-MT) during the 109<sup>th</sup> Congress, which sought to bolster American standing through increased investments in energy, savings, research and education<sup>102</sup>.
- **Maximize the benefits of trade for the middle-class.** Americans must not only feel secure in their economic future, they must feel they are moving *ahead*. Trade advocates must demonstrate through their policies that open trade is critical to the advancement of middle-class living standards and prosperity.
- **Acknowledge and address the new realities of trade in the 21<sup>st</sup> century.** Trade advocates must also pay more than lip service to issues such as the trade deficit, the foreign ownership of debt, product safety, the rise of China and the coming tide of cheap labor from developing nations entering the world economy. Even if some of these issues are not genuine threats to the economic security of the middle class, the concern over these issues is real. As a

consequence, we cannot simply deny these problems but must instead propose a reasonable response that will alleviate popular anxieties without also stifling the cause of trade liberalization.

## Conclusion

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For advocates of open trade, the past 60 years have largely been a record of success. Despite some setbacks and the occasional protectionist win, American economic policy has generally trended toward greater liberalization, and the economic, political and policy climate has worked in favor of trade. This is in part why the current backlash against trade has to some extent caught trade advocates unprepared. So long as history has been on our side, we have had few chances to learn from disappointment.

But it is precisely because of our past successes that we must be wary of resting on our laurels. While it may be true that by failing to know the past, one is doomed to repeat its mistakes, it's the opposite for advocates of trade: it is our *over-reliance* on the record of the past that could doom us to future failure.

Fortunately, advocates of open trade still possess some advantages. There is widespread support within the business community for further trade liberalization, and the cause of open trade still enjoys the support of a broad academic consensus. In addition, public attitudes toward trade are not set in stone. Despite the growing concern Americans have regarding some trade-related issues, most people still have a general feeling that overall, trade is—or *should* be—good for America.

Nevertheless, these advantages are not sufficient to win the case for trade liberalization in the changed environment of today. The challenge to open trade is now fundamentally different from the challenges of the past, and trade advocates must understand what has changed and why if they are to counter neopopulism effectively. The shifts in the current political, economic and policy context that have given rise to neopopulism's current ascendance can help to explain why the old arguments for trade are now losing. And understanding these changes will help point the way toward a new policy and message approach that can and will be more effective.

## Endnotes

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<sup>1</sup> Testimony before the House Foreign Affairs Subcommittee on Terrorism, Nonproliferation, and Trade, March 28, 2007, available at <http://www.cnn.com/2007/US/03/28/dobbs.testimony/index.html>

<sup>2</sup> Campaign ad for Democratic Congressional candidate Jack Davis, available at <http://www.citizen.org/trade/articles.cfm?ID=15892>

<sup>3</sup> See, e.g., World Public Opinion, Program on International Policy Attitudes, survey dated April 26, 2007, which found that 67% of Americans think trade is “bad for job security for US workers” and that 60% believe trade is “bad for creating jobs”; Pew Research Center for People & the Press, Survey dated December 19, 2006, which found that only 12% of Americans believe that free trade agreements create jobs, versus 48% of Americans who say that free trade agreements lead to job losses.

<sup>4</sup> See, e.g. Foreign Policy Association, survey dated September 19, 2003, which found that 55% of Americans believe NAFTA has led to a net loss of jobs for the U.S.; Zogby International, Survey dated December 12, 2003, finding that 55% of Americans believe NAFTA has created fewer jobs in the U.S.

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<sup>17</sup> Bureau of Economic Analysis, National Income and Product Accounts, available at <http://www.bea.gov/national/nipaweb/SelectTable.asp?Selected=N>.

<sup>18</sup> Rothgeb.

<sup>19</sup> World Public Opinion poll, dated April 26, 2007, conducted by the Program on International Policy Attitudes, September 8-14, 2006 and based on interviews with a national adult sample of 1,227 respondents.

<sup>20</sup> Pew Research Center for People & the Press, survey dated June 3, 2003, conducted by Princeton Survey Research Associates International, April 28-May 15, 2004, and based on telephone interviews with 1,201 adults.

<sup>21</sup> World Public Opinion poll, dated April 26, 2007, conducted by the Program on International Policy Attitudes, September 8-14, 2006 and based on interviews with a national adult sample of 1,227 respondents.

<sup>22</sup> Pew Research Center for People & the Press, dated December 19, 2006, conducted by Princeton Survey Research Associates International, December 6-10, 2006 and based on telephone interviews with 1,502 adults.

<sup>23</sup> Foreign Policy Association, dated September 19, 2003, conducted by the Foreign Policy Association, September 5-9, 2003 and based on telephone interviews with 1,000 likely voters; Zogby International, dated December 12, 2003, conducted by Zogby International, September 5-9, 2003, and based on telephone interviews with 1,000 likely voters.

<sup>24</sup> Program on International Policy Attitudes/Knowledge Networks, survey dated January 22, 2004, conducted by the Program on International Policy Attitudes/Knowledge Networks, December 19, 2003-January 5, 2004 and based on telephone interviews with 1,896 respondents.

<sup>25</sup> Ibid.

<sup>26</sup> Trade and Poverty Reduction Survey, dated October 2006, conducted by the German Marshall Fund, September 5-25, 2006, and based on interviews with a national adult sample of 1,000.

<sup>27</sup> Program on International Policy Attitudes/Knowledge Networks, survey dated January 22, 2004, conducted by the Program on International Policy Attitudes/Knowledge Networks, December 19, 2003-January 5, 2004, and based on telephone interviews with 1,896 respondents.

<sup>28</sup> CBS News/ New York Times Poll, dated January 31, 2006, conducted by CBS/New York Times, January 20-25, 2006, and based on telephone interviews with 1,229 respondents.

<sup>29</sup> Program on International Policy Attitudes/Knowledge Networks, survey dated January 22, 2004, conducted by the Program on International Policy Attitudes/Knowledge Networks, December 19, 2003-January 5, 2004, and based on telephone interviews with 1,896 respondents.

<sup>30</sup> Business Week/Harris Poll, dated August 7, 1989, conducted by Louis Harris & Associates, July 7-July 11, 1989 and based on telephone interviews with a national adult sample of 1,250.

<sup>31</sup> NBC News/Wall Street Journal poll, dated April 1987, conducted by NBC News/Wall Street Journal, April 12-April 14, 1987 and based on telephone interviews with a national adult sample of 2,304.

<sup>32</sup> Cambridge Reports National Omnibus Survey, dated April, 1986, conducted by Cambridge Reports/Research International during April, 1986 and based on personal interviews with a national adult sample of 1,500.

<sup>33</sup> CBS News/ New York Times Poll, dated January 31, 2006, conducted by CBS/New York Times, January 20-25, 2006 and based on telephone interviews with 1,229 respondents; Gallup/CCFR Survey of American Public Opinion and U.S. Foreign Policy, survey dated October 1998, conducted by the Gallup Organization, October 15-November 10, 1998 and based on personal interviews with a national adult sample of 1,507; New York Times/CBS News, survey dated August 5, 1996, conducted by CBS News/New York Times, August 3-August 5, 1996 and based on telephone interviews with a national adult sample of 1,166; Gallup/CCFR Survey of American Public Opinion and U.S. Foreign Policy, survey dated October

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<sup>34</sup> UBS/Gallup Index of Investor Optimism Poll, dated April 2004, conducted by Gallup Organization, April 1-April 18, 2004 and based on telephone interviews with a national adult investors sample of 802.

<sup>35</sup> General Electric Survey dated October 1980, conducted by General Electric, October 31-November 18, 1980 and based on telephone interviews with a national adult sample of 2,057.

<sup>36</sup> Pew Internet & American Life Project Poll, University of Michigan School of Information, dated June, 2004, conducted by Princeton Survey Research Associates International, June 14-July 3, 2004 and based on telephone interviews with a national adult sample of 1,510.

<sup>37</sup> Survey by Americans for Fair Trade, dated February 2005, conducted by Ipsos-Public Affairs and Ayres, McHenry & Associates, February 1-February 6, 2005 and based on telephone interviews with a national registered voters sample of 800.

<sup>38</sup> Survey by Investor's Business Daily, Christian Science Monitor, dated May 2002, conducted by TIPP--Techno Metrica Institute of Policy and Politics, May 8-May 13, 2002 and based on telephone interviews with a national adult sample of 906.

<sup>39</sup> Survey by DDB Needham Worldwide, dated 1999, conducted by DDB Needham Worldwide, and based on a mail-in survey with 3,338 respondents; survey by DDB Needham Worldwide, dated 2000, conducted by DDB Needham Worldwide, and based on a mail-in survey with 3,122 respondents.

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<sup>43</sup> Wirthlin Poll dated April 2003, conducted by Wirthlin Worldwide February 7-10, 2003 and based on a National Quorum telephone survey of 1001 adults. Zogby Poll dated September 22, 2004, conducted by Zogby International, August 12-14, 2004 and based on telephone interviews with 1,700 likely voters.

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<sup>54</sup> Gallup Poll (AIPO) dated February 1947, conducted by Gallup Organization, February 1-5, 1947 and based on personal interviews with a national adult sample of 1,500.

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<sup>92</sup> Statement of National Farmers Union, available at <http://www.nfu.org/issues/trade/fair-trade-vs-free-trade/>

<sup>93</sup> Statement of Family Farm Coalition, available at [http://www.nffc.net/issues/fair/fair\\_6.html](http://www.nffc.net/issues/fair/fair_6.html)

<sup>94</sup> Michael Shellenberger and Ted Nordhaus make a similar critique of the environmental movement in their new book, *Break Through: From the Death of Environmentalism to the Politics of Possibility*. They argue that the fatal flaw of environmentalism is the inability of its advocates to leave the silo of pure environmental policy and embed the movement in a larger context.

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