

**A NEW ERA: THE CASE FOR FREE TRADE**  
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**To the Conference on the United States-Canada Free Trade Agreement**  
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Good morning! I am pleased and honored to be a part of this conference on the Free Trade Agreement between the United States and Canada. As indicated by the title of my segment--"A New Era: the Case for Free Trade"--we have indeed entered a new age with this agreement to wipe out most tariff and nontariff barriers between our countries over the next 10 years. However, in making the case for free trade, I intend to expand our frame of reference to encompass the larger international economic picture of which U.S.-Canadian trade is just a part. In that context, it is important to emphasize that the agreement between our two nations is but one step toward the ultimate goal of free and open trade throughout the emerging global market.

I would like to begin today by examining briefly the long-run movement toward global free trade, which I do not doubt will ultimately be achieved. This objective has been a commitment of the United States since World War II and remains the cornerstone of our international economic policy. Then I will address two perceptions held by some of our trading partners. One is that the United States might renege on its commitment to free trade. A second is that the Free Trade Agreement signals the beginning of a North American trade bloc. Finally, I would like to comment more fully on the meaning of the agreement for the future of free trade in the global marketplace.

### **The Impetus toward Free Trade**

From an historical perspective, this agreement between the United States and Canada is part of a movement toward global free trade that began after World War II. We might identify two chief sources of impetus behind that movement. The first is the

philosophical commitment of America and other developed countries to free trade. This orientation grew out of their common experience with onerous trade restrictions during the 1930s. The second is the clear evidence that trade barriers eventually undermine the economies they were instituted to assist.

After the United States emerged from the Second World War as the world's economic leader, we sought to influence the creation of a world market in which trade patterns would be based on the comparative advantages of all participants. During this period we led the battle against protectionism by lowering our own ratio of import levies collected on dutiable items from a peak of over 50 percent in 1930 to around 5 percent today. Thus, although like other countries we had employed protectionist policies in the past, we came to see the benefits that arise from open competition. Our experience has led to the conviction that consumers given a range of choices are the best arbiters of product viability. A corollary is that prospects of improved living standards are enhanced when consumers are permitted to make their choices without government interference.

Since World War II, we have consistently worked toward institutionalizing the ground rules of trade through international agreements like GATT--the General Agreement on Tariffs and Trade--and other forums for negotiation. In so doing, we have opened foreign markets, creating tremendous new opportunities for our own industries. In addition, we helped create an environment in which competitors outside our borders could grow in strength even though we knew that eventually this process would enable them to challenge our position of economic preeminence. We have nurtured this broad competition in global markets because it allows each country to bring its comparative advantage to the table and thereby increases economic efficiency around the world.

At the same time, we have also seen what happens when governments take the power of choice out of consumers' hands by constructing barriers to shore up uncompetitive industries. Living standards can actually fall within the protected borders. All too often, the industries that the barriers were designed to protect become incapable of sustaining themselves without continued government assistance. We need look no further than to our neighbor to the south, Mexico, to find an example of this protectionist fallacy. In the 1950s and 1960s, Mexico was viewed as a country with relatively bright prospects in the international market. To most observers, the country's natural resources and agricultural capacity put it at least a generation ahead of many other developing countries in progressing toward modernization.

However, a variety of well intentioned, but ultimately counterproductive economic policies--exacerbated, of course, during the last several years by the collapse in oil prices--brought development in Mexico to a halt. Heavy protectionist barriers were imposed in pursuit of a policy called import substitution. These barriers encouraged domestic production of steel, automobiles, and the like--products that had earlier been purchased from abroad. While industries propped up in this manner were able to flourish for a time, they were unfit for survival in a truly competitive environment. Protection bred bureaucratic, inflexible management that allowed quality and cost controls to decay. Consumers in Mexico were left with the choices of doing without, dealing on the black market, or being stuck with inferior goods. Meanwhile, Mexico's competitiveness in the world market stagnated. Countries like Taiwan and Korea, though starting from less advantageous positions, bridged the generation gap in development and surpassed Mexico by emphasizing the importance of international trade.

Now that Mexico has joined GATT, many of its trade barriers will be phased out, and I feel that this is the single most important step the country has taken to improve its

economy. While it will take time to adjust to an environment of freer markets, the discipline of market competition should allow Mexico to return eventually to the promising path anticipated two decades ago. In this way, that country has the opportunity to build a base upon which to work out solutions to its other nagging problems, especially its heavy foreign debt.

Mexico is not the only country that is turning away from trade policies which discourage competition from foreign goods. The People's Republic of China and the Soviet Union are also attempting to open their markets to the outside. It has become clear to the leaders of those countries that controlled market policies, which include severe limitations on the availability of foreign products, do not meet consumer needs. If even the most extreme supporters of controlled economies are moving away from an economic system that is so central to their ideology, it suggests to me that the balance is gradually shifting in favor of the philosophy of free trade and competitive markets that the United States has championed over the past 40 years.

### **Perceptions of Protectionist Sentiment in America and New Trade Blocs**

I am enough of a believer in America's commitment to free trade to think that we will remain consistent over the long term in maintaining this stance. Not all of our trading partners are equally convinced, however, and this has raised in some of their minds the second issue I wish to mention this morning. That is the perception that the United States may revert to greater protectionism itself or use the U.S.-Canadian trade agreement as the basis for a trade bloc that will inhibit the entry of outside products into our markets.

The first perception probably arises in no small measure from the unusual openness of our political process. Because of the nature of news coverage here, minority opinions

frequently receive a disproportionate amount of media attention. Thus foreign observers, well aware of the enormous trade deficit we have amassed, take note of the strident voices that are occasionally heard in our legislatures and other public forums calling for more protection for American goods. They may conclude that in attempting to balance our trade flows we will succumb to the temptation to throw up new barriers. In spite of such rhetoric, however, I do not see that our recent actions support such a notion. Indeed, the presidential hopeful most strongly identified with protectionism was soundly defeated during last year's primaries and dropped out of the race. Likewise, the more objectionable measures were removed from the 1988 trade bill before it was passed.

That is not to say, however, that the United States has no barriers to free trade with the rest of the world. We maintain substantial trade barriers restricting agriculture and textiles, for example. As long as these exist, our intentions are left open to foreign suspicions. Rather than rattling our sabers, I would prefer that this country make an effort to continue reducing our remaining barriers and thereby extend a positive example as an unconditional supporter of free trade. It would also be helpful if we came to terms with the primary source of protectionist sentiment at home--our trade deficit. Bringing trade flows into better balance would put a damper on the rhetoric that sometimes shakes the world's confidence in our commitment to free trade. The way to do that is to bring down the federal budget deficits that helped create and sustain the trade imbalance by pulling foreign capital our way to finance government debt. Until we put our fiscal house in order, we will have to buy more than we sell so that foreigners can in turn put their surplus earnings into financing our deficits. That is just one of the reasons why controlling the budget deficit is the most urgent priority this nation faces today.

As for the idea that a North American trading bloc will emerge as a result of the

U.S.-Canadian trade agreement, I feel that this, too, is a groundless fear. Even before the agreement was signed, restrictions on our large two-way trade were quite limited--lower than, say, tariff schedules between ourselves and Mexico. Still, the barriers that existed inhibited competition in both countries, and trade disputes arose on occasion that disturbed our usually cordial relations. In its final form, the agreement not only eliminates trade restrictions but also sets up mechanisms for resolving any future disputes through bilateral commissions. In all of this, the emphasis is on opening channels for the exchange of goods and ideas. In no way should it be construed as a design to distort world trade flows for the unfair advantage of our two nations. Indeed, I view it as a model of the type of arrangement I think we would be happy to work through with many other nations as well.

#### **The Significance of the Free Trade Agreement**

This brings me to my final point, the meaning of the Free Trade Agreement for the future of free trade in the world marketplace. Aside from the benefits it will bring to consumers in both countries, this bilateral arrangement has great value as a laboratory for testing concepts and procedures that can be extended to a broader range of countries in the future. Thus, I do not agree with those who contend that only multilateral negotiations such as GATT--and not bilateral agreements--are legitimate tools for reducing world trade barriers. I have already noted the important place of GATT in the United States' postwar strategy of creating a competitive global marketplace, and I am optimistic that GATT will continue to play a crucial role in propelling us toward that objective.

However, it is worth noting that in spite of the many historical and cultural similarities Americans and Canadians share, our dialogue on free trade lasted for several years and in the end required an election in Canada before being completed. Given the

complexity of two-way discussions, the problems of negotiating at one time with 80 different countries, as is the case with GATT, often spell frustrating delays for any meaningful resolution to world trade problems. The current round of GATT has run into significant delays over issues that are very important to America's competitive position. Developing versions of the GATT principle to be applied to trade in agricultural products, as well as services like banking and insurance, are goals we would very much like to achieve. Yet the developing countries have a distinctly different agenda. Under such conditions, negotiations among a smaller number of countries are more likely to yield progress. For these reasons, I think we should view the bilateral negotiations between the United States and Canada--and, for that matter, the continuing negotiations within the Economic Community in Europe--as pilot programs that offer opportunities to try out free trade concepts in controlled situations. The success which I believe they will enjoy will then strengthen the arguments for dropping barriers among a broader range of countries like the GATT signatories.

### **Conclusion**

In conclusion, the U.S.-Canada Free Trade Agreement certainly marks a milestone in relations between our two countries. However, it is really only the midway point in an evolutionary process toward the free and open global market toward which I believe we are inevitably moving. We must not lose sight of this ultimate goal, even though the process will be a long and complex one. The agreement between our two countries may well be a catalyst in obtaining progress toward more open exchange of goods and services throughout the world. It will demonstrate once again that the rewards of free trade are more than worth the difficulties that must be overcome to achieve it.