

# HOW TRADE POLICY FAILED U.S. WORKERS— AND HOW TO FIX IT



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## EXECUTIVE SUMMARY

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Over the last several decades, U.S. trade policies have failed most Americans. Under the guise of “free trade” special interests have captured trade policy to extract wealth at home and abroad and leave working people to bear the costs. Coupled with the myriad of domestic policy failures that have left workers, families and communities worse off, U.S. trade policy made Americans more vulnerable to the COVID-19 crisis, in terms of both their jobs and their health. Despite the U.S. having the world’s largest economy, many households are struggling to survive. Its hollowed-out manufacturing sector cannot produce the essential virus protection equipment and components that U.S. workers and households desperately need. The combined impacts of failed trade policy and the botched handling of the pandemic have also compounded inequality, with women, Blacks and other communities of color disproportionately suffering the loss of jobs.

In 2016 Donald Trump campaigned on a promise to change the course of U.S. trade policy. But his counterproductive tariff wars have made things worse. Even before the pandemic, former manufacturing centers of the Midwest were experiencing slower job growth under Trump than under the Obama administration. His signature initiatives — the renegotiation of the North American Free Trade Agreement (NAFTA) and his trade war with China — have failed to produce good jobs. The official U.S. government projection of the impact of

the revised NAFTA (now called the US-Mexico-Canada Agreement or USMCA) projects a *loss* to the U.S. economy and *fewer* jobs as a result of the agreement, unless one accepts dubious propositions about the value of its pro-corporate deregulatory measures. The trade war with China led to higher costs for consumers and losses to farmers cut off from that key market. For manufacturing sectors, any positive effects from Trump’s tariffs were more than offset by the rising cost of inputs and negative effects from retaliatory tariffs imposed by trading partner countries who fight tit-for-tat when targeted. The only winners of the Trump trade policy? Big pharma, big finance and big tech.

To distract Americans from his failed policies and failed handling of the current economic and health disaster, President Trump blames China—for everything. And yet despite his anti-China rhetoric, foreign direct investment by U.S. corporations into China has continued at high levels throughout his presidency. In 2019, for example, U.S. firms invested \$14.13 billion in China—more than in 2016, the year he was elected—led by construction of new auto plants there by Tesla and General Motors. The fact is that China continues to invest in infrastructure and manufacturing and as a result attracts investment from across the world. Meanwhile Trump showered tax breaks on the rich instead of investing in America’s jobs and crumbling infrastructure.

Judging by the trade deficit—the measure of U.S. trade performance preferred by Trump—he has clearly failed. There has been a larger trade deficit in each of the three full years of his presidency than there was when he took office from Obama.

In this time of crisis, we need a new trade policy more than ever to support an economic recovery from the pandemic and to start building an equitable economy that is resilient to future crises. A new policy must shift bargaining power away

from corporations and towards working people to create an economy that works for everyone, not just special interests.

This new policy should emphasize international cooperation—rather than antagonistic tariff wars—to encourage policies that lift up working families around the world, stabilize the global economy and provide a global order that protects public health, addresses climate change and builds a green economy now and for future generations.

## KEY PRIORITIES:

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- **An immediate moratorium on all international trade and investment rules that restrict government responses to the crisis.** These include intellectual property rules that limit the availability and affordability of medicines and medical equipment; rules that allow penalties against subsidies designed to stimulate domestic production; and rules that allow foreign investors to sue governments over public interest policies that reduce their profits.
- **Renegotiation of all trade rules that constrain pro-worker and pro-environment domestic policy agendas.** A recovery from the pandemic-induced economic collapse will require significant support from the government for job creation, health and social services, new infrastructure and the green industries of the future. Many current trade rules—often negotiated at the insistence of pro-corporate U.S. negotiators—prohibit subsidies and industrial policies. These need to be suspended and then renegotiated to allow the U.S. and other countries to rebuild their devastated economies. If another country’s economic model leads to negative labor and environmental effects elsewhere, the new rules should allow the U.S. and others to use border measures (tariffs, taxes, denial of entry of products, etc.) to protect their own labor, social and environmental objectives. Each country must be free to choose the economic system and policies that produce the results its people want.
- **Strong new enforcement mechanisms to hold individual corporations accountable for violations of labor, human, and environmental rights and standards in trading partner countries.** U.S. trade agreements put the responsibility for protecting these rights and standards on governments. However, it is usually private firms that commit

the violations and they, too, must be held accountable for their actions and face real penalties for failure to respect rights and standards.

- **Elimination of monopoly protections for essential medicines and new rules that encourage innovation and cooperation in the pharmaceutical and medical product industries.** It is critical that we learn from the current crisis to advance rules that ensure rapid deployment of new treatments that are accessible for everyone and lower prices for U.S. and global consumers.
- **Trade rules that provide incentives for goods and services that prevent, mitigate and help adapt to climate change.** Disincentives such as border taxes should be levied on goods and services that exacerbate climate change. Adjustment financing for workers and communities currently dependent on fossil fuels should be included in trade deals. Trade rules should complement domestic agendas for a just transition to a clean energy economy that does not leave workers behind.
- **Elimination of investor-state dispute settlement.** This anti-democratic system allows private foreign corporations and investors to sue governments over public interest laws and regulations. It also encourages offshoring of U.S. jobs by restricting the ability of foreign governments to improve labor and environmental regulations.
- **A new mechanism for screening foreign investments to ensure they contribute to real security.** This would go beyond the current screening process focused on “national security” issues to ensure foreign investors make concrete commitments to providing decent jobs and benefits for local workers and communities, particularly vulnerable groups, in an environmentally sustainable manner.
- **Elimination of trade and investment rules that prevent policymakers from controlling footloose capital.** Without a full toolbox of financial tools, governments are limited in their ability to prevent crises like the 2008 crash and the economic impact of the current pandemic from spreading from one country to another, with devastating effects on U.S. jobs and workers’ pension accounts.
- **Renegotiation of trade deals to include effective penalties for tax dodging by multinational corporations and the wealthy.** The U.S. government should work with global partners to forge an international agreement to stop the global race to the bottom in corporate taxes and allow countries to raise the revenue needed for recovery and to finance inclusive societies for the future.
- **Overhaul of the current anti-democratic trade policy-making process.** Corporate lobbyists have called the shots on trade policy for too long. A new trade policy must expand the power of workers and other public interest stakeholders over decision-making and oversight.

# 1. INTRODUCTION

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As COVID-19 spread around the world—upending lives, health care and economies on every continent—the massive faults of existing systems were laid bare. The U.S. has fared especially badly and the immediate requirement is to repair the gaping holes in the public health system and economic safety net and create jobs to replace the millions of livelihoods that were destroyed. But now we must also make political choices and start to rebuild for the future. This is the right moment to reflect on the unfettered financial and investment globalization that has shaped our lives over recent decades. More recently that version of globalization has morphed into a geopolitical rivalry between the U.S. and China, threatening to pull the world into a new cold war.

**AS WE START TO REBUILD  
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U.S. ECONOMY—THE LARGEST IN  
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PEOPLE SO VULNERABLE.**

COVID-19 will bring many changes, but whether the change is for the better or worse is indeterminate. What we do next will depend on how well we analyze the causes of the current health and economic disaster; whether we correctly

understand the roles played by different policies, values and countries; and how honest we are in setting out alternatives and pursuing those that can create a viable, fair and humane system for the future. As we start to rebuild we need a coherent understanding of why the U.S. economy—the largest in the world, with enormous wealth—left its working people so vulnerable to such harsh health and economic fallout. One important aspect of this analysis, and the purpose of this report, is to understand the role of trade and international economic integration in order to ensure that trade and investment rules are aligned with urgent and longer-term needs, rather than standing in the way.

The report begins with an examination of U.S. trade policy before the pandemic and reveals an approach tilted heavily toward the interests of the financial sector and large and concentrated U.S. corporations, with negative impacts on many workers and households. U.S. trade policy created perverse incentives for U.S. corporations to move jobs, production and investment overseas, where they enjoyed huge profits and often avoided taxes. As these firms destroyed jobs and pushed down wages and regulations in the U.S., the government failed to change course and did little to help those who lost from its unbalanced policies.

These failures were a campaign focus of then-candidate Donald Trump in 2016, but once in office he doubled down on the pro-corporate approach. While throwing on some tariffs and blaming other countries, the core of his trade policy aims to increase profitability and privileges for firms and investors. Despite bombastic rhetoric, the data in the next two sections of this report show that he did nothing to improve the quality, security and wages of U.S. jobs. We review his main trade actions and agreements, including his deal to replace NAFTA and his trade war with China, and examine their impact on U.S. workers and hard-hit regions. The report then discusses Trump's overall approach to China and what it means for jobs, wages and security in the U.S. and beyond. We propose constructive ways to develop a U.S.-China relationship that benefits both of the world's two largest economies and thus the world economy as a whole and avoids the risk of dangerous confrontations or even a war that nobody could win.

The report then focuses on the future and how trade policy should be changed to recover the ground lost over recent decades and rebuild on a sound basis after the pandemic-induced recession. As we face a long and difficult recovery it is critical that every U.S. public policy must

contribute to a revival of the economy, with a focus on empowering and lifting working households out of the recession and providing the public goods and services needed for health and social well-being. The U.S. should also be a leader in establishing the minimum rules needed to stabilize the global economy in a way that allows each country to participate in trade as a component of its own recovery, recognizing that a hostile, us-against-them attitude toward the world jeopardizes our own welfare while increasing the likelihood of serious conflicts. The report sketches out a new trade policy built to achieve equitable outcomes within the U.S. and across countries, prioritizing the interests of labor over investors and recognizing that labor exploitation anywhere undermines fairness everywhere. Curbing corporate power and shifting power to working people is a necessary part of a strategy to create quality jobs and broadly rising living standards across the world, making everyone better off. The proposed new trade policy also takes into account that we are facing a climate crisis in addition to the health crisis and includes steps toward a cooperative international system that builds health, stability and resilience across the world—now and sustainably into the future.

## 2. A TRADE POLICY THAT WENT WRONG

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Trade was not a controversial topic not so long ago. For three decades after World War II trade worked well for the U.S. and for many other countries, governed by the General Agreement on Tariffs and Trade (GATT). That agreement gradually reduced tariffs over several rounds of negotiations while allowing plenty of room for each country to pursue its own national policy on employment, investment and other economic matters. During those years increasing U.S. exports translated into increased domestic employment and many import-competing firms became more productive. Those workers who were displaced by imports were able to find jobs in an economy that was at full employment most of the time due to Keynesian demand management policies, massive infrastructure investment and other factors.<sup>1</sup> Trade contributed to rising productivity in both export and import-competing sectors and thus provided economic space for wages to rise, with strong trade unions then fighting for and winning increases.

**THE CHOICE OF TRADE POLICIES WAS INCREASINGLY DOMINATED BY THE INTERESTS OF THE U.S. FINANCIAL SECTOR AND MULTINATIONAL CORPORATIONS.**

However, beginning with the Reagan administration in the 1980s, U.S. trade policy shifted as part of a broader policy shift toward a profit-maximizing version of capitalism that came to be known as neoliberalism. Instead of the ongoing, gradual reduction of tariffs as under the GATT, trade policy became an instrument to project specific pro-business policies and deregulatory measures onto trading partner countries.<sup>2</sup> The choice of which policies to project was increasingly dominated by the interests of the U.S. financial sector and multinational corporations. U.S. trade policies privileged investors and firms through unfettered capital mobility and stringent protections for offshore investments, in contrast with weak protections for labor and the environment and failure to enforce even those weak measures.<sup>3</sup> At a time when the end of the Cold War and integration of the global economy brought a surge of low-wage workers into the global labor force and tilted bargaining power away from labor in favor of investors and firms, U.S. trade policy further augmented the rights and power of capital rather than seeking to rebalance rights and power toward working people and communities.

The positive impact of trade on the productivity of U.S. workers and domestic firms that had been seen during earlier decades ground to a halt after offshoring of production and global supply chains gained pace.<sup>4</sup> As U.S. multinationals

chose to shutter U.S. factories and shift jobs to countries with cheap labor and lax regulation, the productivity gains went straight into corporate profits, not into the U.S. economy.<sup>5</sup> Meanwhile at home the rights of workers were under assault both by increasingly footloose employers and their lobbyists and by Republican administrations from Reagan to Trump that eroded labor law protections.<sup>6</sup> The Obama administration tried to repair some of the regulatory damage during its eight-year term. But the Trump administration has subsequently rolled back the Obama reforms; accelerated the assault on workers' rights to form unions and bargain collectively; and given employers expanded scope to misclassify workers in order to pay less, provide few or no benefits and otherwise violate their rights.<sup>7</sup> The combination of offshoring and changes in U.S. labor policy that favor employers over workers has resulted in the stagnation of wages for the last forty years and increasingly precarious employment and livelihoods.

These broad declines have had particularly harsh consequences for workers in some local areas and industries. A study that looked at the effects of NAFTA by measuring each industry's vulnerability to Mexican imports and each locality's dependence on vulnerable industries found that wage growth was dramatically lower for blue collar workers in the most affected industries and localities, with negative spillover effects on service-sector workers' wages as well.<sup>8</sup> A seminal study examining the effects on local labor markets of China's growing exports to the U.S. found strong impacts in those areas where industries exposed to foreign competition are concentrated and noted that the effects were long lasting, "with wages and labor-force participation rates remaining depressed and unemployment rates remaining elevated for at least a full decade" and with exposed workers experiencing reduced lifetime income.<sup>9</sup> Trade shocks increased inequality for workers, caused severe adverse social impacts on many communities and had harsh impacts on Black and Hispanic workers (Box 1).

## TRADE, INEQUALITY AND WORKERS OF COLOR

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Trade shocks and manufacturing decline have harsh effects on employment and communities. Rising import competition reduces manufacturing employment among young workers of all races, contributing to increases in social consequences such as male withdrawal from the labor force, premature mortality, a decline in marriage and fertility and a growth in the share of children raised in poverty.<sup>10</sup> These effects are now widely observed in many regions affected by trade. Trade shocks and manufacturing decline increase inequality, including through the impacts on wages and home values as well as on social measures including death rates and child mortality.<sup>11</sup>

Black workers are highly represented in industries that have suffered numerous trade shocks, such as autos and auto parts, tires and pulp and paper mills and they and their communities have felt the harsh impacts.<sup>12</sup> Because of persisting income gaps along the lines of race and ethnicity, these job losses were often devastating for communities of color who tend to have less of a financial cushion to withstand spells of unemployment. Localities that are both exposed to trade shocks and have high minority populations are particularly affected, including cities such as Detroit, Michigan, Gary, Indiana and Youngstown, Ohio and regions such as northern Mississippi, western Tennessee and central Virginia.<sup>13</sup> Across all industries and regions Black women were 27 percent more likely and Black men were 34 percent more likely to have been displaced

through a plant closing or other permanent layoff than their white counterparts and the disparity has been rising in recent decades.<sup>14</sup>

NAFTA's impact on U.S. jobs was felt strongly in areas where the Hispanic population is highest. Fully half of the 950,000 NAFTA-related job losses certified by the Trade Adjustment Assistance (TAA) program were in the 15 states where 85 percent of the U.S. Hispanic population lives.<sup>15</sup> Hispanic workers are disproportionately represented in light manufacturing, including the apparel and textile sector, which was doubly hit by NAFTA and China's accession to the World Trade Organization (WTO).

Today's jobs have become more unstable, with lower wages and benefits, for many U.S. workers across all races, including through the use of subcontracting, outsourcing and temporary employment. About ten percent of workers (15.5 million) are in nonstandard jobs as their primary employment.<sup>16</sup> These jobs typically pay less, have fewer benefits and more variable hours than standard jobs. Black and Hispanic workers are overrepresented in temporary employment agency work.<sup>17</sup> Manufacturing employers have increased their use of subcontracting and temporary employment in recent decades, leading to a decrease in the security and wages of manufacturing jobs which for many workers of color had been a path to the middle class.<sup>18</sup>

The accumulation of legitimate grievances caused by the shift in U.S. trade policy was exploited in 2016 by then-candidate Donald Trump. Although he denounced the effects of earlier trade policies, once in office he has negotiated trade pacts that continue to favor the financial sector, pharmaceuticals, technology and corporate agriculture and do little or nothing for U.S. jobs and wages. His counterproductive tariff wars have made things worse: even before the pandemic, former

manufacturing centers of the Midwest were experiencing slower job growth under Trump than under the Obama administration and his mishandling of the pandemic has hit manufacturing hard. We examine his biggest trade initiatives—the deal to replace NAFTA and his tariff war and subsequent deal with China—to evaluate how his performance in office compares with his promises to voters. In Boxes 2 and 3 we focus in on the effects in two states, Michigan and Ohio.

**EVEN BEFORE THE PANDEMIC, FORMER  
MANUFACTURING CENTERS OF THE MIDWEST WERE  
EXPERIENCING SLOWER JOB GROWTH UNDER TRUMP  
THAN UNDER OBAMA.**

## USMCA OR NAFTA 2.0

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During the 2016 campaign Trump denounced NAFTA and promised to replace it with a better deal. However, the new NAFTA, now called the U.S.-Mexico-Canada Agreement (USMCA), continues most of the provisions of the old NAFTA and subsequent U.S. trade deals and provides major new benefits to corporations. Instead of focusing on steps to improve jobs and strengthen communities and the environment across all of North America, the deal restricts the right of the three governments—including the U.S.—to adopt new regulations that would promote and protect public interests. For example, it constrains the ability of U.S. lawmakers to rein in harmful content on U.S. tech platforms and creates new privileges for U.S. tech and platform firms that will allow them to further consolidate their global market share, profits and political power.<sup>19</sup> It creates more favorable terms for financial firms to operate across the continent (and thus increase their market shares and political influence) and constrains the ability of the governments to place limits on their expansion. There are some limited improvements in the pact's enforcement mechanisms regarding labor rights in Mexico, but these are mainly due to efforts by Democrats in the U.S. House of Representatives, discussed below, rather than Trump administration efforts.

Even seeming improvements are less so when examined closely. A provision requiring that a portion of autos and auto

parts be made by workers earning at least \$16 per hour in order to qualify for tariff-free access to the U.S. is a case in point. Notably, the pact allows a majority of parts and assembly (55-60 percent) to continue to be produced at extremely low wages, such as the average wage of about \$8 per hour for Mexican auto assembly workers and about \$4 per hour for workers in auto parts factories, and still be imported into the U.S. duty-free. The requirement that 40-45 percent be made at an average wage of at least \$16 per hour is unlikely to have any impact on the wages of auto workers in the U.S. and Canada, who already earn considerably more. Even in the non-union plants in the U.S. South the average wage in the industry is close to or meets the \$16 per hour requirement. Expenditures on research, development, design and information technology can be figured in to meet the wage requirement, further diluting any impact. Those manufacturers who do not meet the wage requirement would pay a 2.5 percent tariff, not much of a deterrent. Many analysts believe that this provision will not lead to more well-paying jobs in the U.S. auto industry.<sup>20</sup> A number of Japanese auto corporations have already announced that they will raise wages in Mexico rather than relocate production plants.<sup>21</sup> A noteworthy study projects that the effect of USMCA combined with Trump's tariffs on steel and aluminum, trade war with China and threatened auto tariffs on Europe together would lead to 366,900 *fewer* U.S. jobs.<sup>22</sup>

Another improvement in the USMCA that is less than meets the eye is the restricted scope for the investor-state dispute settlement mechanism (ISDS). In order to harness the votes to ratify the pact, Trump’s negotiators phased out this widely criticized mechanism for disputes with Canada over three years. It required that such disputes with Mexico would have to go first through domestic courts before being taken to the private international tribunals. That said, in the face of the fossil fuel lobbies, Trump agreed to loopholes that could allow these industries to continue using the ISDS.

Overall, the official U.S. government estimate of the impact of the USMCA on the U.S. economy and employment is *negative*, unless one accepts the flawed hypothesis that the benefit to investors of reducing government’s ability to regulate in the public interest is worth something to the economy as a whole. The U.S. International Trade Commission (USITC), the body charged with estimating and tracking the effects of trade on the U.S. economy, projects that once fully implemented the agreement will lead to a small *contraction* of the U.S. economy and a small *reduction* of total U.S. employment.<sup>23</sup> It is only by ascribing value to USMCA’s pro-corporate deregulatory

provisions that “deter the imposition of future obstacles to trade and investment” and “reduce policy uncertainty” for investors that the ITC is able to come up with a miniscule overall positive impact on the U.S. economy of one-third of one percent of GDP and a one-time increase of one-eighth of one percent in total jobs after six years.<sup>24</sup> A study of the economic impact of USMCA published by the International Monetary Fund (IMF) comes to a similar conclusion. It estimates that Canada and Mexico would each have a very slight welfare gain while the U.S. would have a slight loss and that the overall effects on the three countries’ GDP would be negligible.<sup>25</sup>

After Trump signed the agreement with Canada and Mexico, the Democrats in the House of Representatives rightly found it wanting and refused to ratify it unless certain changes were made. They were able to achieve some improvements, including the removal of new protections for pharmaceutical firms that Trump’s negotiators had inserted, which would have further driven up the cost of prescription drugs in North America. They also won a stronger enforcement mechanism for protecting workers’ rights in Mexico, discussed in Section 3.

## **JOBS IN MICHIGAN: TRUMP'S 2016 CAMPAIGN PROMISES AND ACTUAL RESULTS**

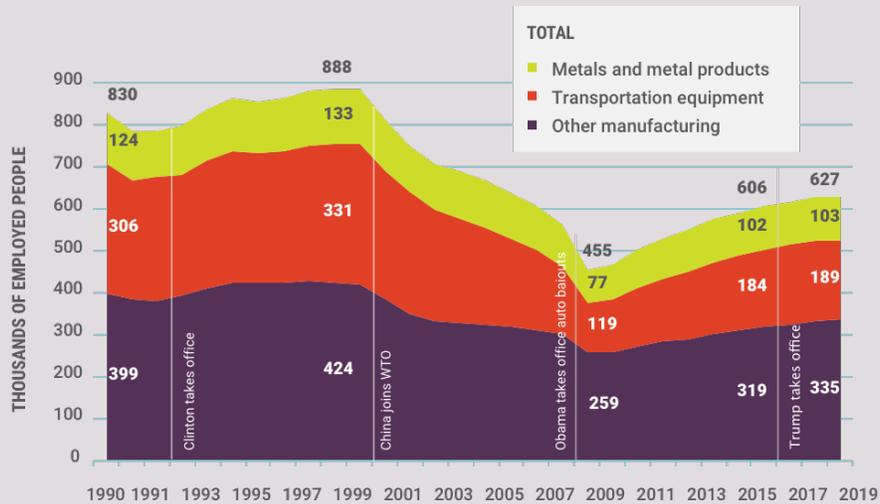
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Campaigning for the presidency in 2016, Donald Trump promised Michigan voters he would “Bring your jobs back to America. . . .If I’m elected, you won’t lose one plant.”<sup>26</sup> He further promised, “We’re going to create great jobs and we’re going to get the wages up.”<sup>27</sup>

After nearly four years of his presidency the reality has been quite different. Fiat Chrysler closed its Conner Avenue assembly plant in Detroit in 2017; General Motors closed the Warren Transmission plant, north of Detroit, in 2019; and Ford has announced plans to close the engine plant in Romeo, Michigan.<sup>28</sup> In addition to the loss of auto plants since 2016, investments by auto firms in Michigan declined by 29 percent over the three full years of Trump’s presidency, compared with the previous three years under Obama. Such investments in the state totaled \$15.8 billion from 2014 through the end of 2016, compared with \$11.2 billion from January 2017 through January 2020.<sup>29</sup>

Figure 1 shows the evolution of overall manufacturing employment in Michigan from 1990 through 2019. From a peak of 888,000 jobs in 1999 during the Clinton administration, employment fell dramatically during the Bush administration, with the last stages of NAFTA’s phase-in, the 2001-2002 recession, China’s accession to the WTO and the financial crisis of 2007-2008. The Obama administration’s 2009 bailout of the auto industry and other policies to address the crisis stopped the erosion and set in motion a slow recovery. At the end of Obama’s two terms, about 35 percent of the earlier losses had been recovered, for an average manufacturing jobs growth of about 4.4 percent each year of his presidency. By contrast, during Trump’s term jobs have increased by only one percent each year on average.

**Figure 1. Michigan Manufacturing Recovery Slowed down Under Trump**  
**Michigan Manufacturing Employment By Subsector And Total, 1990-2019**



Source: Bureau of Labor Statistics, Current Employment Statistics

Looking beyond manufacturing to overall employment in Michigan, Trump’s failure to deliver on his job promises is even more stark. Figure 2 shows that total

employment growth in Michigan during the three full years of his presidency (before the coronavirus pandemic) was by far the lowest in a decade.

**Figure 2. Trump’s Trade Wars Slowed Michigan Job Growth**  
**Michigan employment, annual growth, 2010-2019**



Source: Bureau of Labor Statistics, Current Employment Statistics

One factor contributing to the extremely low job growth during Trump’s term was his penchant for waging trade wars. As already noted, these trade wars were targeted to achieve gains for favored corporations, sectors and political constituencies, not to achieve trade agreements that could actually increase jobs and wages through fair and balanced trade rules. The trade war with China cost Michigan jobs and the resulting agreement for China to purchase agricultural and energy goods did nothing for overall jobs and wages in the state. Even farmers in Michigan have been net losers, requiring a series of expensive taxpayer bailouts.<sup>30</sup>

With regard to the new USMCA, the miniscule projected impact on the overall U.S. economy is echoed in Michigan. The official USITC government report found that the new regional content requirements for autos to enjoy duty-free treatment into the U.S. market would result in a very small increase in jobs in lower-paid auto parts plants, not assembly plants, which the USITC projected would lose jobs.<sup>31</sup> Other manufacturing sectors will likely see further job losses through continued offshoring under the agreement.

## U.S.-CHINA “PHASE 1” DEAL

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Another trade agreement touted by Trump—the “Phase 1” deal with China—also continues his pro-corporate approach to trade. Its main feature is the commitment by China to purchase an additional \$162 billion worth of goods from the U.S., the majority of which are agricultural exports, such as soybeans, grains and meat, and energy products like crude oil and liquefied natural gas. This offers little for U.S. workers and households but benefits corporate interests in sectors with strong lobbies and key constituencies in the 2020 presidential election. Former national security adviser John Bolton claims that Trump explicitly asked Chinese President Xi Jinping to

increase soybean and wheat purchases to help him win critical rural support for his re-election bid.<sup>32</sup>

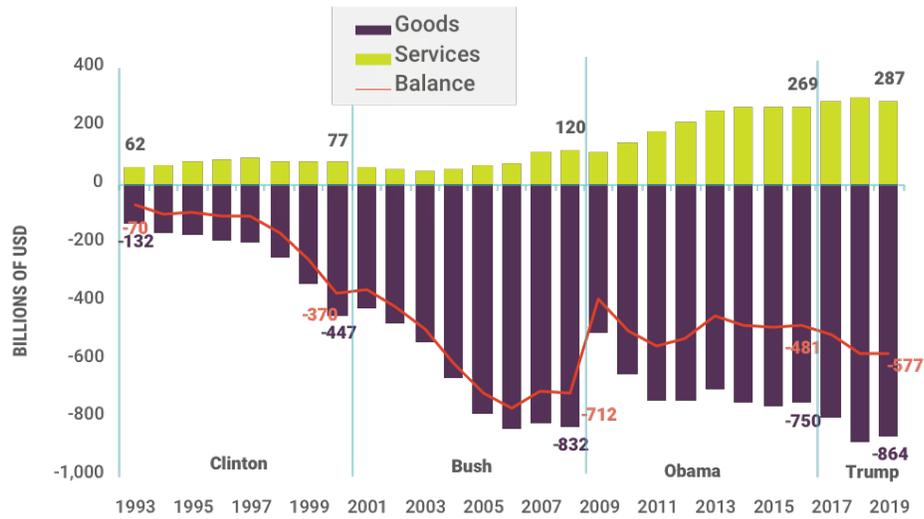
**DESPITE TRUMP’S ANTI-CHINA RHETORIC, FOREIGN DIRECT INVESTMENT BY U.S. CORPORATIONS INTO CHINA HAS BEEN HIGHER DURING HIS PRESIDENCY, LED BY CONSTRUCTION OF NEW AUTO PLANTS THERE BY TESLA AND GENERAL MOTORS.**

Other than the promised purchases, Trump's deal allowed China to simply restate commitments on access for financial service companies and other pledges the country had already made at the WTO, IMF and in the G20.<sup>33</sup> The cost of achieving this limited agreement was Trump's launch of the tariff war that in its first year alone cost the U.S. almost 300,000 jobs according to one credible study.<sup>34</sup> These tariffs, and those imposed by Trump against other trade partners, provoked predictable retaliation from the countries targeted and this reduced U.S. exports and the jobs dependent on them (see boxes on Michigan and Ohio). In most cases China was easily able to find alternative suppliers: China's imports of soybeans from Brazil and other Latin American countries have skyrocketed in the last few years, even as their purchases from the U.S. slumped and U.S. exporters worry about a permanent loss of market share.<sup>35</sup> For manufacturing sectors, any positive effects from import tariffs were more than offset by larger negative effects from retaliatory tariffs and rising cost of inputs.<sup>36</sup>

It is worth noting that, despite Trump's anti-China rhetoric, foreign direct investment by U.S. corporations into China has continued at high levels throughout his presidency. In 2019, for example, U.S. firms invested \$14.13 billion in China—more than in 2016 when he was elected—led by construction of new auto plants there by Tesla and General Motors.<sup>37</sup> A rigorous study of the impact of all of Trump's trade wars in 2018 finds that “the U.S. import tariffs were almost completely passed through into U.S. domestic prices in 2018 . . . the tariffs fell on U.S. consumers and importers. . . with no impact so far on the prices received by foreign exporters.”<sup>38</sup>

Judging by the trade deficit—the measure of U.S. trade performance preferred by Trump—he has clearly failed. There has been a larger trade deficit in each of the three full years of his presidency than there was when he took office from Obama (Figure 3). In fact, the Trump trade deficits are rivaled only by the George W. Bush administration trade deficits.

**Figure 3. U.S. Trade Deficit Has Grown Under Trump**  
*U.S. trade balance, billions of U.S. dollars, 1993-2019*



Source: U.S. Census Bureau

When Trump’s maximum tariffs against China were in effect in 2019, the deficit was larger than in 2016, not least because the trade deficits with Europe, Mexico and other countries continued to increase under his watch. While the trade deficit is an imperfect measure of overall trade performance due to the many factors that influence it, the long-term pattern of the trade deficit does reflect the offshoring of manufacturing over the last 40 years. The U.S. now imports many goods that

it previously exported, as a result of the flawed U.S. trade policy discussed above. Trump’s trade approach uses tariffs only as a bargaining tool to negotiate for the interests of U.S. finance, multinationals and favored corporate sectors, including to protect their overseas investments and profitability. Meanwhile U.S. jobs and households bear the burden of the tariff wars without any gains from the resulting trade pacts.

## OHIO INCOMES AND LIVING STANDARDS: YESTERDAY, TODAY AND TOMORROW

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Ohio has a long history of job and income losses from trade: many residents can still name the factories in their towns that closed and went to Mexico or China. Rusting buildings in many former industrial powerhouse cities provide the visual evidence. Today Ohio farmers face dramatic uncertainty over their exports to China, and over the last couple of years they also suffered from retaliatory measures by Canada, Mexico and Europe in response to Trump's tariff wars against those U.S. trading partners. Trade is unquestionably an important factor in Ohio's jobs, wages and farm incomes and Trump's policies have worsened existing problems.

### **JOB, WAGES AND INCOMES IN OHIO**

Recovering the golden age of plentiful industrial jobs and the high incomes they provided may seem like a distant dream or at least a very abstract question for many Ohioans. The challenge they face today is that the jobs they do have are often insecure, the pay is low and variable hours make weekly paychecks precarious. Walmart is now the state's largest employer. The problems facing Ohio workers have been a long time in the making but the factors leading to stagnant wages, insecure jobs and precarious household incomes have gotten worse during the Trump presidency. Many

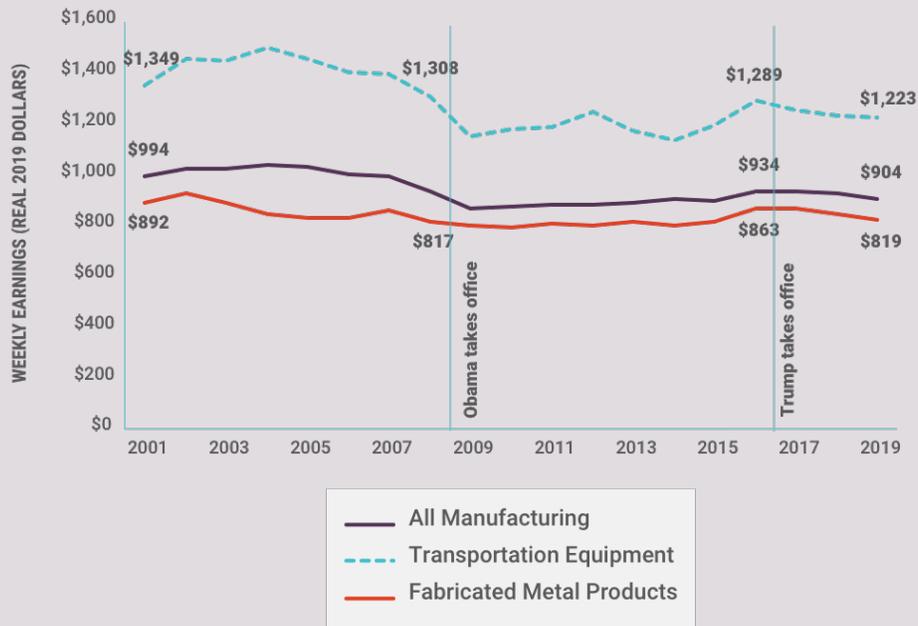
of the most pressing problems facing Ohio households today are affected by Trump's policies on issues other than trade, including his damaging policies on labor, social programs, health care and the environment.

He has appointed anti-labor partisans to the National Labor Relations Board, who then rule against workers' attempts to organize into unions. His preferred response to the coronavirus-induced economic slowdown is to cut employers' payroll contributions to Social Security and Medicare, which would put the finances of those social programs in jeopardy, threatening the millions of Ohio retirees and disabled persons who depend on them. In fact he is currently trying to start down that path through executive order. He has tried to abolish Obamacare and with it the guarantee that pre-existing conditions must be covered by insurance policies, an effort that he is currently pursuing before the Supreme Court. Trump's decision to impose a six-year freeze on fuel efficiency standards that were due to increase under policies adopted by the Obama administration—and his decision to forbid states to adopt stricter policies—were a factor in General Motors' decision to shut down the Lordstown plant that made the fuel-efficient Chevy Cruze model.

Some of the results of Trump and Republican policies on labor can be seen in the evolution of wages in the manufacturing sector, where wages

declined during the Bush administration, recovered slightly under Obama and then declined again under Trump (Figure 4).

**Figure 4. Ohio Manufacturing Wages Have Declined Under Trump**  
*Average weekly earnings, Ohio manufacturing production workers, 2001-2019*



Source: Bureau of Labor Statistics, State and Metro Area Employment, Hours and Earnings

Today, six of the top ten occupations in Ohio, in terms of largest number of jobs, pay wages that put the workers below or just above the poverty line for a family of three (that is, an annual income of \$21,330).<sup>39</sup> These jobs include fast food and counter workers, retail salespeople, cashiers, home health and personal care aides, waiters and waitresses, stockers and order fillers. Low wage workers are disproportionately female, African-American and Hispanic. Many of these workers are considered essential workers during the current health pandemic and have been required to continue working

despite the risk; yet they themselves often lack health insurance and sick leave.

What does tomorrow hold for Ohio wages and incomes? That depends on the political choices Ohioans and other Americans make. To illustrate, the Democratic-controlled House of Representatives passed a bill this year to raise the national minimum wage to \$15 an hour, which would raise wages for well over a million low-paid Ohioans. However Trump opposes it and Republican Senate leaders refuse to even consider the bill. The Democratic-controlled House has

already passed bills to strengthen a broad range of workers' rights on the job, including bills to improve their ability to organize and bargain for better wages and conditions; stronger protections for the rights of women workers, older workers and disabled workers; and the right of tipped workers to enjoy the same higher minimum wage as others. Again Trump and Senate Republicans refuse to consider

these bills. Democrats have also introduced bills to strengthen protections for retired miners' health care and the pensions of workers in multi-employer pension plans, along with bills to improve workplace health and safety in light of the pandemic, among many other steps. None of these steps that could protect workers and protect household incomes are on Trump's agenda.

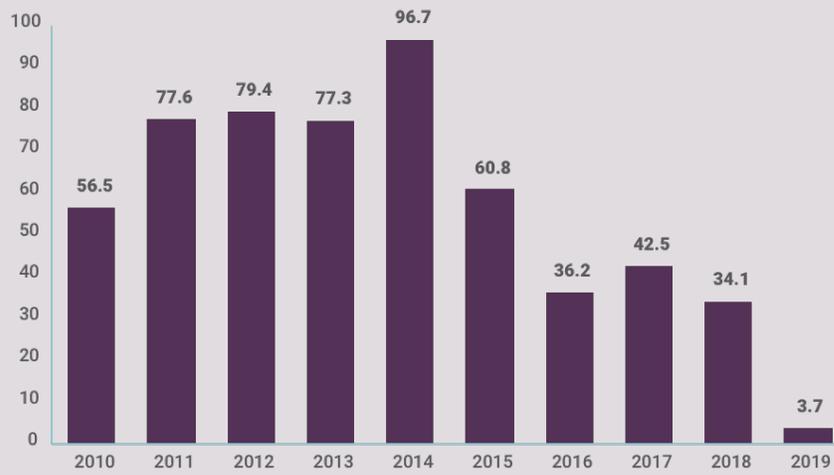
### **TRUMP'S TRADE POLICY WHIPSAWS OHIO**

Turning to Trump's trade tactics, a study by Ohio State University scholars found that Ohio has already lost and could lose more from Trump's aggressive trade wars. They note that China is the largest international destination for Ohio's soybeans. The tariffs that Trump imposed on steel and aluminum imports have hurt Ohio firms that use the metals as inputs for their products.<sup>40</sup> The OSU scholars wrote: "There are thirty-six jobs in Ohio's metal-using manufacturing industries for every job in steel and aluminum manufacturing." A survey of the state's manufacturers in 2019 found that those who said they were negatively affected by the tariffs outnumbered those positively affected by nearly nine to one.<sup>41</sup> While steel and aluminum workers and their unions understandably fight hard to preserve their well-paying jobs, Trump's counterproductive trade wars are not the answer. The Alcoa Corporation has

maintained a decision to close a major plant in Washington state, laying off 700 workers, despite Trump's latest aluminum tariffs.<sup>42</sup> Canada is now imposing \$3.6 billion in punitive countermeasures on U.S. aluminum and aluminum-containing exports, and predicts a price increase on the washing machines made at the very Ohio plant where Trump announced the tariffs in August, along with price increases on autos, bicycles and soda cans and negative impacts on jobs and consumers.<sup>43</sup> The underlying problem is global overcapacity in the steel and aluminum industries, now exacerbated by the economic effects of the pandemic. Only global cooperation, not tariff tantrums, will solve the problem.

The overriding effect of Trump's trade wars was to generate uncertainty that rippled through the Ohio, U.S. and global economies. It undoubtedly contributed

**Figure 5. Trump's Trade War Slowed Job Growth in Ohio**  
*Ohio employment, annual growth, 2010-2019*



Source: Bureau of Labor Statistics Current Employment Statistics

to the sharp slowdown in the state's employment growth observed in 2019 (Figure 5). It is worth noting that total employment growth in Ohio was far lower during Trump's presidency than during Obama's.

Looking forward, many Trump policies cast a shadow over future job creation in Ohio. For example, his touted Tax Cuts and Jobs Act of 2017 slashed corporate taxes on foreign profits from 28 percent to 10 percent, giving multinational companies a new incentive to offshore production.<sup>44</sup> Despite the fact that the USMCA was lauded as producing more certainty in North American trade, Trump re-imposed

tariffs on Canada's aluminum exports, drawing renewed retaliation from that country, Ohio's largest trading partner. As already noted in the box on Michigan above, the USMCA's new regional content requirements for autos produce only small increases in auto parts jobs and job losses in auto assembly.<sup>45</sup> Other manufacturing sectors could see further job losses through continued offshoring under the agreement.

### 3. TRUMP'S HOSTILE APPROACH TO CHINA HAS NOT HELPED U.S. WORKERS AND COMMUNITIES

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The COVID-19 pandemic has given rise to a blame game between the U.S. and China instead of the international cooperation needed to cope with the pandemic. The tensions in the U.S.-China relationship have created economic instability and fanned nationalist sentiment in both countries. This will make a difficult economic recovery even harder for the U.S. and global economies. On the current path there is a risk that the antagonism could spiral out of control into a destructive new cold war, global economic contraction or even military confrontation.<sup>46</sup>

**U.S. CORPORATIONS SHIFTED JOBS TO COUNTRIES WITH THE LOWEST LABOR COSTS; AND FOR JOBS THAT REMAINED, THE BARGAINING POWER OVER WAGES SHIFTED TO EMPLOYERS WHO COULD THREATEN TO MOVE.**

China was already a favorite punching bag in recent U.S. elections and 2020 promises to be an extreme version of this familiar cycle. Whipping up anti-foreign sentiment is a familiar playbook for political figures with nothing positive to offer their electorates. However some of Trump's tactics find a receptive base in parts of the

U.S. working class for reasons that need to be understood and addressed. The shift in U.S. policies that favored foreign investment and offshoring by U.S. firms coincided with China's decision to join the global economy in the 1990s. As U.S. corporations searched for cheap labor, they found it in developing countries like Mexico and particularly in China, because of the huge size of its labor force. Jobs were shifted to locations with the lowest labor costs; and for jobs that remained, the bargaining power over wages shifted to employers who could threaten to move jobs offshore. The result was the loss of employment and wage stagnation for large sections of the U.S. working class, described in Section 2 above.<sup>47</sup> It is essential to acknowledge that low wages in China, Mexico and other countries in the 1990s and early 2000s' contributed to those job and wage losses, giving rise to grievances that are now manipulated politically.

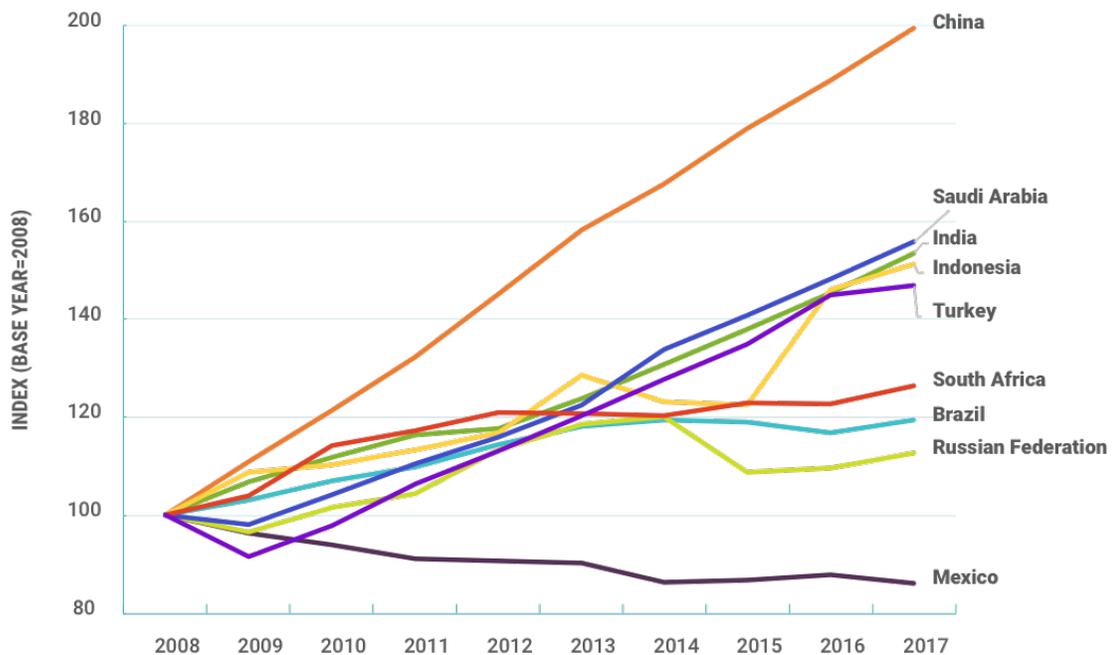
These grievances have been weaponized in U.S. politics as an anti-China narrative that also promotes xenophobic and racist views. But that narrative fails to acknowledge the role of U.S. trade and investment policies and the decisive role of U.S. corporations. Even before China joined the WTO, U.S. corporations flocked to invest in China despite strong conditions on the Chinese side, more than willing to trade their technology for

access to the fastest-growing market in world history. China used the desire of foreign investors and producers to access its enormous market and labor force as leverage to develop its own productive capacity, to catch up with the global technological frontier, to create jobs for its huge population and to eliminate extreme poverty.

The anti-China narrative also ignores recent developments in China. Perhaps most notably, the Chinese government started raising wages dramatically

beginning in 2003 and thereafter (Figure 6). As a result, Chinese manufacturing wages, which were about half the level of Mexican wages in 2003, were 40 percent higher than Mexican manufacturing wages by 2018 and are comparable to those in some eastern European countries. Like the United States in the decades after World War II, China’s strategy has been to invest heavily in infrastructure, industry, higher education, research and innovation. These investments led to productivity growth that supported the wage increases.

**Figure 6. China Has Lifted Wages and Increased Domestic Demand**  
*Average real wage index for emerging G20 countries, 2008-17*



Source: ILO Global Wage Report 2018/19<sup>48</sup>

China pursued these wage policies for its own reasons: to raise its citizens’ living standards and to expand domestic consumption demand. Sixty percent of

Chinese workers were in the broadly defined middle class by 2015.<sup>49</sup> The result is that domestic consumption has been the largest source of China’s overall

GDP growth for the last several years. By raising wages in a country with such a huge population, China has increased not only domestic demand but global demand as well, which creates export opportunities for other countries. China is still the third top destination for U.S. exports, after Canada and Mexico. Despite the disruptions caused by Trump's tariff wars, exports to China currently support about a million U.S. jobs.<sup>50</sup> China's dramatic wage increases also created space for other emerging and developing countries to raise wages without sacrificing their competitiveness. In Mexico, for example, the new government of Andrés Manuel López

Obrador reversed his predecessors' policy of wage repression and dramatically raised the country's minimum wages in 2019 as one of its first acts in office, including by *doubling* minimum wages in the region along the U.S. border. It

increased all minimum wages a further 20 percent in January 2020. Raising wages for workers serves as a reminder that trade need not be a zero-sum game, contrary to the Trump approach. Workers in one country don't need to lose for others to win. Lifting the floor under wages for all workers can create better quality jobs both at home and abroad.

**BY RAISING WAGES FOR SUCH A HUGE POPULATION, CHINA HAS INCREASED GLOBAL DEMAND AS WELL AND IS STILL THE THIRD TOP DESTINATION FOR U.S. EXPORTS.**

So is China the villain? The U.S. and other nations used industrial policy, subsidies, tariffs and other strategies similar to those of China to build their industries and global market share. But once they thought their own corporations would forever have the upper hand they started to push through more restrictive rules in the WTO and bilateral trade deals to deny such policies to emerging economies. On the domestic front, the U.S. pursued an almost opposite economic policy course to that of China beginning in the 1980s, cutting back government investment in infrastructure, research and innovation. It deregulated financial markets, allowing financial firms

to maximize profits anywhere without consideration for domestic jobs and incomes. It severely weakened protections for labor, leading to wage stagnation in the U.S. while China was rapidly raising wages. Some firms profited, but the broader U.S. economy and working

households were harmed. Blaming China ignores the fact that it was U.S. corporations that broke the post-war social contract with American workers. And now the Trump administration has given them free rein to continue driving down wages and making jobs more insecure and precarious than ever.

A significant part of the current tension between the U.S. and China stems from these contrasts between the U.S. market-led, profit-maximizing approach and China's state-led approach. Today, many of the policies that could correct some of the most serious problems facing the U.S.—including rising inequality by class, region and race, huge wealth concentration and climate change—require a more government-led approach rather than the small-government, free market fundamentalism of the last four decades. Progressive candidates and the public should be thoughtful and careful about how they wish to align on U.S. policy toward China because many of the objectives that Trump seeks are antithetical to the interests of American workers and communities. His trade template aims to constrain other governments' intervention in the economy and foster convergence toward lowest-common-denominator regulations for the benefit of U.S. firms abroad. These policies are not in the public interest in the U.S. or elsewhere.

Policy toward China, as toward other countries, should focus on legitimate goals and cooperation to address common challenges such as climate change and pandemic response. It should address legitimate complaints, such as theft of intellectual property, which occurs in China and other countries (including the U.S., as shown by recent cases in the tech and auto industries), rather than turning them into weapons to whip up nationalistic hostility. It should be consistent in calling out serious violations of human rights, which occur in China and many countries, as well as in the U.S. itself. It should not start from a preconceived notion that government intervention in the economy is inherently bad or wrong. Franklin Delano Roosevelt intervened heavily to pull the U.S. economy out of the Depression and today government intervention will be essential to recover from the economic crisis caused by the pandemic.

## **4. A NEW TRADE POLICY THAT SUPPORTS RECOVERY FROM THE PANDEMIC, CREATES JOBS AND HELPS TO BUILD A FAIR AND SUSTAINABLE FUTURE ECONOMY**

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This review has traced the shift in U.S. trade policy over the last 40 years and the damage it has done and continues to do to workers, households and communities. It has also noted that the shift in trade policy was part of the broader shift beginning in the 1980s and accelerated during the Trump administration to favor investors and firms over workers, shrink government, privatize or destroy public services, deregulate and give corporations free rein to pursue profits no matter the cost or collateral damage. The pandemic has made clear how badly that approach has weakened the U.S. and left it brittle and vulnerable. The recovery from the pandemic will require many profound changes to business as usual and provides a ripe context for imagining and constructing a new trade policy as part of a broader policy shift.

This section discusses changes in several aspects of trade policy that can be combined with other domestic reforms to gradually reconstruct an economy

### **INTEGRATE TRADE INTO AN OVERALL ECONOMIC PLAN FOR RECOVERY THAT FAVORS JOBS, COMMUNITIES AND THE ENVIRONMENT**

Economic planning is sometimes associated with planned economies, like those of the socialist bloc during the twentieth century. However the U.S., too, has often been guided by an economic

that is more equitable, resilient and sustainable. There is no single silver bullet, but there are many concrete steps that should be taken as a matter of urgency. The discussion begins with the need for overall economic planning, sometimes called industrial policy, because the U.S. will need a coherent plan to rebuild the economy after the severe and uneven economic destruction caused by the pandemic. This is followed by proposals for reform of trade policies dealing with labor rights and jobs; public health, resilience and sustainability; and investment, capital flows and taxes. In each case the changes needed in domestic policies are also noted. The section closes with a discussion of reforms to change the process by which U.S. trade policies are made, a process that has been captured by powerful business lobbies, and proposes some immediate steps to create the space for a recovery both at home and in the broader global economy.

plan, whether explicit or not. An explicit example is the New Deal, the Roosevelt administration's plan to recover from the Depression and build a new U.S. economy that favored workers rather than the

wealthy. In the decades after World War II the plan was less explicit but included a broad consensus that the government had to manage overall economic demand and make up for private sector shortfalls when they occurred. It also included enormous public investments in education, research and infrastructure to increase productivity while preparing the workforce and laying the groundwork for continuous innovation.<sup>51</sup> Those plans assumed the need for a robust and competent government to correct market failures and ensure that the public investments were carried out well.

**WITHOUT A PLAN THE U.S. WILL DRIFT BACK TO THE HARSH, UNEQUAL AND UNSTABLE ECONOMY THAT HAS BEEN BUILDING FOR YEARS AND THAT HAS REACHED HISTORICALLY PRECARIOUS LEVELS DURING THE TRUMP ADMINISTRATION.**

The neoliberal period beginning under Reagan in the 1980s represented a radical ideological rejection of that approach. The “free market” was idealized while the role of the state was actively disparaged and whittled back. The narrative was that the government should stay out of the way of the private sector, which would do an efficient job of allocating resources

(capital, labor, etc.) and everyone would be better off. Behind the intellectual facade, of course, were the private sector investors and corporations who sought to increase profits, reduce labor’s share and eliminate public interest regulations that impeded their ability to maximize return on investment. While the concepts of economic planning and industrial policy were attacked and ridiculed—and even eliminated from textbooks and policy debate as the ideology gained dominance—there were in fact unacknowledged industrial policies that doled out favors to different sectors and firms, based on their political power and influence.

It was in this period that U.S. trade policy came to be dominated by the interests of U.S. manufacturers who wanted to offshore their factories to exploit cheap labor overseas; by sectors such as pharmaceuticals and the movie industry that wanted to maximize profits by expanding the duration and geographical scope of their intellectual property protections; by the financial industry that wanted to supplant local banks abroad and gamble in a much larger casino; and most recently by the information technology sector that seeks to expand its winner-take-all dominance not only in the U.S. but across the globe. In order to deliver the market access and overseas protection sought by these privileged sectors, the U.S. pursued an aggressive strategy of restricting *other* countries’ policy space for economic planning.<sup>52</sup> It used WTO and bilateral negotiations to enshrine

measures against industrial policies, public procurement preferences for domestic producers, subsidies, state-owned enterprises and other policies that can help a government construct the kind of economy its citizens desire. For example, while continuing to provide domestic subsidies for U.S. corporate agriculture it aggressively sought to open developing country markets for subsidized U.S. exports and restrain those governments from supporting domestic small-scale farming, in the process eroding food security and creating distress migration in many countries. The Trump administration has continued the aggressive use of trade policy to coddle favored U.S. corporations and sectors, as seen in the new USMCA and China “Phase 1” deal, discussed above.<sup>53</sup>

Now, in light of the destruction caused by the pandemic, the U.S. desperately needs its own economic plan and a sound domestic industrial policy to rebuild the economy. The need for planning to correct the many distortions caused by the market was evident even before the pandemic and has been advocated by many political leaders and thinkers in recent years.<sup>54</sup> Without a plan, policies and institutions that focus on job creation, restoring incomes and equity and increasing investment in infrastructure, research and development the U.S. will drift back to the harsh, unequal and unstable economy that has been building for years and that has reached historically precarious levels during the Trump administration.

To illustrate the interconnected nature of the problems and the need for coordinated planning to address them, one need look no further than the shortfalls in medicine and medical supplies revealed by the pandemic. Pharmaceutical companies wanted air tight intellectual property protections in trade and investment agreements in order to shift production overseas without risk to their monopolies and profits. After winning excessive protection they also benefitted from the Trump tax bill of 2017 that lowered U.S. taxes on overseas profits, encouraging further offshoring. In order to bring production of essential goods back to the U.S., changes will be required in both trade pacts and tax laws.<sup>55</sup>

If the U.S. embarks on a corrective economic plan it will face many of the constraints on intellectual property, subsidies, local procurement and industrial policies that the U.S. itself insisted upon at the WTO and in free trade agreements. These rules can be used by any trade partner to institute retaliatory trade measures or by private firms to demand compensation for “lost” profits. At a minimum, the U.S. should offer and seek a moratorium with its trade partners to suspend the most damaging policies under the WTO and other trade agreements, for example intellectual property provisions that limit the availability and affordability of medicines and medical equipment and rules that allow retaliation against subsidies, preferences for domestic producers and other measures that will be needed to revive economies after

the crisis. Specifically, the U.S. should immediately seek to suspend operation of the Agreement on Trade-Related Investment Measures (TRIMs), the Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the Agreement on Government Procurement (GPA) at the WTO and similar provisions in its bilateral and regional free trade agreements. It is reasonable to expect that most other countries will be receptive to such an offer, as they, too, struggle to rebuild their economies and many have long resented the U.S.-imposed restrictions on their policy space.

Longer term, a new trade policy should permit countries to choose their own economic model and decide for themselves

whether to use industrial policy, public enterprises, support for domestic producers and subsidies to help create jobs and build sectors. If other countries' models lead to negative effects on jobs and wages elsewhere, countries should be free to use border measures (such as tariffs or denial of entry) to protect their own domestic economic model and public welfare. WTO and free trade agreements should be renegotiated to eliminate negative constraints on countries' policy space. The new agreements should be pared back to a set of clear and simple rules that encourage upward convergence of living standards and explicitly permit measures against social and environmental dumping.

## **STRENGTHEN LABOR STANDARDS, WAGES, WORKERS' RIGHTS AND INTERNATIONAL SOLIDARITY**

As discussed above and below, U.S. trade policy has favored investors over workers, capital over labor by extending trade, investment and tax advantages to firms that offshore production in search of cheap labor, lax regulations and low tax rates. This has had the de facto effect of pitting workers from one country against those in other countries, despite their common exploitation by the same system and often by the very same firms. In response to the public frustration this has created, the U.S. has negotiated labor clauses in trade agreements over the last 25 years that claim to lift labor standards in trading partner countries. However experience over time shows that this approach has failed to support U.S. workers' rights and

wages and has largely failed to lift those of workers in countries with U.S. free trade agreements.<sup>56</sup>

**THERE IS NO TRADE POLICY THAT WILL WORK FOR WORKERS IF FLAWED DOMESTIC U.S. LABOR AND SOCIAL POLICIES ARE ALLOWED TO CONTINUE OR BE MADE WORSE, AS THEY HAVE BEEN UNDER THE TRUMP ADMINISTRATION.**

A much more ambitious and integrated approach is needed to address the effects of trade on labor and working households, both in the U.S. and around the world.

Required changes fall into four baskets:

- Reforms to domestic U.S. labor laws, wage policy and social protection systems
- Labor clauses in trade agreements that require improvements rather than just standstills or non-derogation of labor standards, with provisions that create cross-border monitoring and enforcement capacity for workers' organizations in all countries that are party to the agreement
- Strong new enforcement mechanisms to hold individual firms in trading partner countries accountable for violations of labor rights and standards, in addition to holding governments accountable; and a new ability for the public to hold the U.S. government accountable for implementing these mechanisms effectively
- A new preference program for low-income countries (GSP+) that rewards them with U.S. market access *after* they demonstrate improvement in labor standards, rights and wages, with annual reviews of eligibility

## **REFORMS TO THE U.S. SOCIAL CONTRACT**

First, and perhaps most important, is the recognition that many of the worst problems facing U.S. workers today stem from deficiencies in our own labor laws, labor policy and social protection systems that are the result of deliberate policy choices. The pandemic made more painfully obvious the fact that most working households do not have adequate incomes to withstand a severe economic or health shock like the one they are currently experiencing. It showed starkly that many workers who are essential to social well-being and public health are paid extremely low wages with few benefits and suffer from insecure employment relationships. Many also face the effects of racial, ethnic and gender discrimination, making them even more vulnerable in a crisis, over and above the burden discrimination imposes in normal times. The U.S. social contract—the overall set of rights and relationships that guarantees everyone a decent standard of living and acceptable working conditions—was severely frayed before the pandemic and is now in tatters. Numerous recent works have detailed the necessary repairs to the employment relationship, employment security, wage policy, organizing and collective bargaining rights, social insurance and social welfare policies and they can serve as guides.<sup>57</sup> It is worth noting in the context of this paper that there is no trade policy that will work for workers if the fundamental faults of domestic U.S. labor and social policy are allowed to continue or be made worse, as they have been under the Trump administration.

## **LABOR OBLIGATIONS IN TRADE AGREEMENTS**

A second basket of reforms should address the level of commitments and obligations related to labor rights that the U.S. and trading partners agree to undertake as part of trade agreements. As noted, labor clauses have been included in U.S. free trade pacts for the last 25 years and the extent of labor obligations in these chapters has been somewhat strengthened over the decades. However the current template continues to be vague and general, requiring that parties adopt and maintain legislation protecting the four fundamental labor rights covered by the 1998 ILO Declaration on Fundamental Principles and Rights at Work (the rights to freedom of association and collective bargaining, freedom from forced labor, freedom from child labor and freedom from discrimination.) The U.S. insists that the interpretation of these rights is limited to the broad language of that Declaration and does not extend to the eight more specific underlying international conventions that spell out these rights, because it has failed to ratify six of the eight relevant conventions. This should be corrected by U.S. ratification, incorporation of the conventions into domestic labor laws and inclusion of the conventions' requirements into labor clauses of U.S. trade agreements.

The current template also includes a requirement that countries adopt laws and practices governing “acceptable conditions of work” with regard to minimum wages, hours of work and occupational health

and safety but it leaves the definition of acceptable to the countries themselves, despite their often clearly *unacceptable* laws and practices. The agreements should require specific improvements, where needed, rather than leaving it to each party to decide. The U.S. has had some experience with this, beginning with the Obama administration when the U.S. negotiated a detailed Labor Action Plan with Colombia to address profound labor problems in that country.<sup>58</sup> The Obama administration also negotiated a specific agreement with Mexico to strengthen that country's workers' rights to union representation and collective bargaining, in the context of negotiations for Mexico to accede to the Trans-Pacific Partnership (TPP). After the Trump administration pulled the U.S. out of the TPP the reforms stalled in Mexico. Trump's negotiators knew that a replacement for NAFTA could not attract enough votes to be ratified by Congress and as a result largely adopted the Mexican labor reform plan negotiated by the Obama team and appended it to the new USMCA. These and other examples illustrate that specific reforms to labor laws and rights can be achieved during the period before trade agreements are ratified. They should be undertaken wherever serious reform is needed as a way to leverage trade and market access to improve jobs and wages and foster an upward convergence of living standards among trading partner countries.

Labor clauses should also create cross-border monitoring mechanisms that can be used by workers' organizations, civil

society and legislators in all countries that are party to the agreement. Interested members of the public can currently file petitions with the U.S. government alleging violations of labor obligations but it is the government's decision on whether to initiate a review. Instead, petitions should lead to an automatic and transparent investigation to determine if the allegations meet a basic standard, such as establishing a prima facie case of violations, and the petitioners should have the right to participate in the review. Rules of evidence should be appropriate to the real-world circumstances of unequal power and fear in which labor exploitation occurs and should provide adequate safeguards to the identity and safety of witnesses.

### **ENFORCEMENT OF LABOR RIGHTS IN TRADE AGREEMENTS**

The third basket includes reforms to the enforcement of labor obligations by trading partners to ensure that individual firms and employers respect labor rights and provide adequate wages and working conditions. As noted above, the U.S. has included labor chapters in all of its trade agreements over the last 25 years, but they have seldom been enforced by the U.S. or other governments. Recently Democrats in the House of Representatives insisted on including more effective enforcement procedures in the new USMCA to address these failings. They were successful in incorporating into the agreement a new mechanism for an expedited review by independent experts of allegations that workers' rights to organize and bargain had been violated. They were able to

include the possibility of sanctions against individual firms and facilities that deny these rights. Recognizing that the Democrats could block the agreement's ratification, the Trump administration agreed to include their proposed approach but insisted on compromises that will make it slower and weaker than the Democrats' original proposal and its impact remains to be seen.

Going forward, the U.S. should adopt a new template for enforcement of labor obligations in all trade agreements that builds on the Democrats' changes to the USMCA and a related proposal from Democratic Senators Sherrod Brown and Ron Wyden. The penalty for violations of labor rights in trading partner countries should be the denial of entry at the border for the goods or services made under exploitative labor conditions, sometimes called social dumping. U.S. law already permits such border measures against goods made with forced labor and the Democrats' changes to USMCA expanded it to include violations of Mexican workers' organizing and bargaining rights. The new template should expand the scope of denial of entry to cover goods and services made in violation of any workers' rights, including those related to the fundamental rights defined by the ILO, as well as acceptable minimum wages, health and safety on the job and migrant workers' rights. The new approach should cover all trading partner countries and existing free trade agreements should be renegotiated to include it. As with the new USMCA provisions, enforcement should be targeted

first at individual facilities and firms, since these are the direct perpetrators of harm to workers. Creating positive or negative incentives targeted at the firm level can potentially align the interests of the private sector more closely with those of workers and the public by expanding firms' decisions on labor compliance beyond immediate cost calculations to broader market access considerations. It also can create an important deterrent effect, as other firms see the potential cost of labor violations and correct their practices in order to continue to export to the U.S. market.

**ENFORCEMENT SHOULD BE TARGETED FIRST AT INDIVIDUAL FIRMS AND FACILITIES, SINCE THESE ARE THE DIRECT PERPETRATORS OF HARM TO WORKERS**

In terms of institutional capacity for enforcement, panels of independent experts should be established that can conduct the investigations into alleged violations at firm level. Such panels were created by the Democrats' improvements to the USMCA and experience can indicate whether further institutional capacity is needed. A separate small, independent agency should be established to oversee the border implementation of denial of entry measures for goods and services made in violation of labor rights.

Beyond enforcement mechanisms addressed to the firm level, government-to-government enforcement mechanisms that address broad, systemic failures by governments are also necessary but the existing model needs to be reformed. The flaws in the current U.S. dispute settlement system were revealed in the only labor case the U.S. government has ever pursued until now. That case, against Guatemala for widespread and profound labor rights violations, was lost by the U.S. in 2017 based on loopholes in the agreement.<sup>59</sup> Although the USMCA closes the most obvious loophole in the existing enforcement system that allowed Guatemala to continue egregious violations of labor rights with no penalties, it left another loophole partly open. Most importantly, the arbitration demonstrated the unsuitability of private arbitrators to resolve disputes concerning fundamental labor rights with no possibility of appeal. Future dispute settlement arrangements should require that arbitrators have demonstrated expertise in international labor standards and the agreement should instruct them that their responsibility in deciding cases is to uphold those standards and redress violations of labor rights. There should be an appeals mechanism as a constraint on decisions that run counter to labor justice and the public interest.<sup>60</sup>

The enforcement mechanisms should also add a new right for members of the public to take action in court to compel the U.S. government to carry out its obligation to enforce the labor terms of trade agreements. As noted above,

administrations over the years, including the Trump administration, have largely failed to carry out their responsibilities and there should be an option for those harmed to compel government action.

### **LABOR CONDITIONS IN LOW-INCOME COUNTRIES**

A fourth basket of reforms should address special trade privileges extended to low-income developing countries. In these countries, many workers are engaged in agriculture, often at subsistence levels, or in the informal economy as street merchants, domestic service providers and other low-paid occupations. It is both a matter of social justice and in the interest of putting a floor under labor conditions everywhere to allow these countries to engage in production and export of manufactured goods and value-added agricultural products. However, it is too often the case that the local or multinational firms that set up export operations in such countries exploit workers there in ways that violate their basic rights and dignity and underpay them compared to their productivity and contributions. The firms are sometimes abetted by weak or corrupt governments; and buyers of their products often look the other way. The resulting low wages and standards undercut workers and governments in other developing countries that want to raise living standards and working conditions and leave all worse off—except the profitable firms. Trade policy can help stop the global race to the bottom by offering special preferential access for low-income country exports

*only* if they are made with decent wages and working conditions. A number of countries, including the U.S. and European Union (EU), offer preferential access under the Generalized System of Preferences (GSP), a WTO-compliant exception to the standard rule of treating all countries the same. However the labor obligations that must be met to benefit from these GSP programs are minimal and vague and their impact on labor conditions in recipient countries has usually been disappointing.<sup>61</sup> The EU launched a special program called GSP+ that requires recipient countries to ratify the eight fundamental ILO labor rights conventions in order to qualify but has done little to follow up on implementation or compliance.

A more promising new preference program for low-income developing countries should be launched, one which rewards the countries with tariff-free access to markets *after* they demonstrate improvement in labor standards, rights and wages and requires annual reviews of eligibility to ensure that the improvements are sustained. Ideally such a program would be coordinated by the U.S., EU and other countries granting the new benefit. Such a GSP+ program would incorporate lessons learned from an earlier experiment in Cambodia under a unique trade agreement from 1999 through 2004 that gave greater access to the U.S. market for Cambodian garment exports *after* the country demonstrated improvements in working conditions and labor rights each year.<sup>62</sup> The government and industry opted to continue the program, known

as Better Factories Cambodia, even after the agreement ended. Numerous studies have shown significant and sustained improvements in working conditions and wages under the program.<sup>63</sup>

The current U.S. GSP program does not cover garments, a product that is often the entry level of manufacturing in low-income countries but that is also the locus of extensive labor exploitation. This has been a factor in the relatively muted effectiveness of U.S. GSP in raising labor conditions, because the threat or actual withdrawal of benefits does not have an impact on this important sector. A notable example is Bangladesh, where the U.S. withdrew GSP benefits after the Rana Plaza factory collapse that killed

over 1100 apparel workers and revealed rampant labor exploitation. However, the withdrawal had little economic impact on the country because the sector wasn't covered and the Bangladeshi government was not responsive to U.S. demands for greater safety and rights for workers. A new GSP+ program should expand U.S. coverage to include garments and related entry-level industries for those low-income countries that have demonstrated sufficient progress in their labor laws and practices and have documented, positive outcomes for workers. Annual reviews of eligibility would ensure that the improvements are sustained if recipient countries want to continue to benefit.

## **SUPPORT, RATHER THAN UNDERMINE PUBLIC HEALTH, RESILIENCE AND ENVIRONMENTAL SUSTAINABILITY**

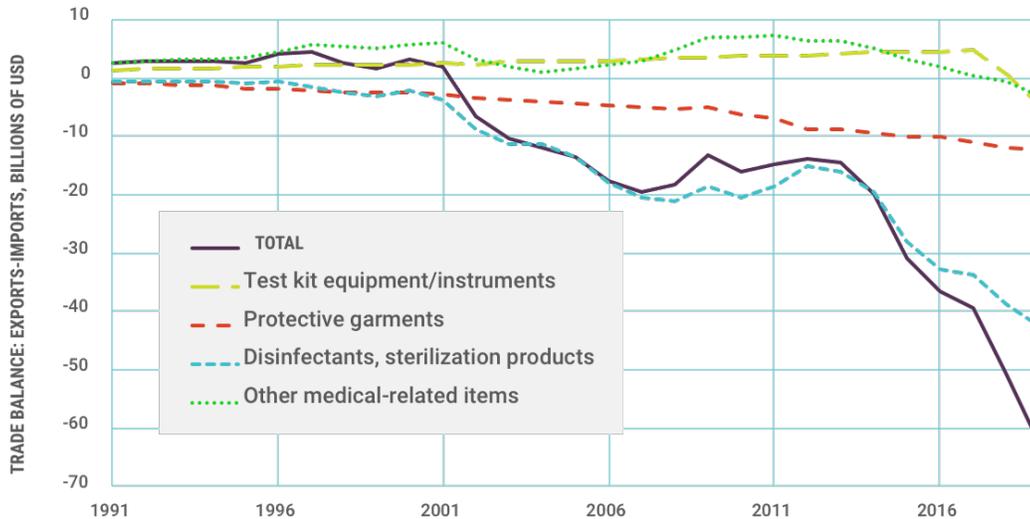
Workers and communities in the U.S. and abroad need access to affordable medicines and health care, clean air and water and a hard and soft infrastructure that is resilient to pandemics, climate shocks and financial instability. The COVID-19 and subsequent economic crisis have revealed how much of the U.S. population lacks these basic necessities, especially when they need them most. We outline changes needed to trade and investment policy in each of these areas.

### **PUBLIC HEALTH AND WELL-BEING**

U.S. and global trade policy has enabled extensive offshoring in the pharmaceutical and medical equipment industries and severely diminished production in the

U.S., as seen in Figure 7. Firms seeking to maximize profits concentrated production in just a handful of countries, in pursuit of low labor costs or low tax rates, creating bottlenecks of essential products and inputs. Understandably, when the pandemic hit, some countries that manufacture products such as masks, test kits and ventilators were reluctant to export those goods until they treated their own people, leading to global supply chain disruptions and profound shortages of urgently needed products in the U.S. and many other countries.

**Figure 7. The U.S. Relies on Other Countries for Virus Protection**  
*U.S. trade balance in goods relevant to COVID-19*



Source: UN Comtrade database<sup>64</sup>

Major public investment in research and development for vaccines and treatments to cope with this pandemic—and the next one—will need to be core priorities for the next administration. A spirit of sharing new discoveries as they arise and diffusing knowledge to maximize the speed and scale of preparedness should be adopted. The current intellectual property provisions in trade deals prevent medical researchers who are searching for vaccines, cures and treatments from gaining access to the test data, compounds and other information needed to innovate solutions for COVID-19. This further illustrates the need for the moratoria on WTO and bilateral trade agreements discussed above, which allow pharmaceutical firms to keep test data and other crucial information secret, and for future and renegotiated

trade agreements to prioritize public health over private profits.

When vaccines and treatments are developed, working people in the U.S. and across the world will justly demand equal access to them and the U.S. will have to profoundly revise its current policies that allow the pharmaceutical and medical equipment industries to profiteer. Equally important will be the need to establish manufacturing capabilities for those vaccines and treatments on American soil, as well as in other countries, to provide the needed products on the huge scale required and to prevent bottlenecks. The public will need to be protected from exploitation of the personal data they share in the effort to prevent and mitigate pandemics.

The challenges we now face on an urgent

basis are built on longstanding problems with regard to affordable medicines, food production and distribution systems, pollution and climate change. We came into the pandemic with systems that were brittle, unfair and unsustainable. Efforts to increase economic resilience and ensure access to health care, medicine, food and a clean environment will need to be supported by a mixture of subsidies, tax incentives, equity investments, loans and guarantees. It will require accelerated government investment and sharing of knowledge in research, development and technological adaptation for new domestic industries and help for small and medium enterprises to adopt new knowledge and scale up production. However many of these measures are proscribed by the national treatment principle and intellectual property rules in U.S.-negotiated trade agreements. U.S. trade and investment policy has enabled large pharmaceutical, financial, fossil fuel energy and tech giants to file claims against any municipal, state or federal government through private investor-state-dispute settlement (ISDS) arbitration panels when they allege that a country's regulations have reduced their expected profits. The rules and arbitration mechanism allow private firms to threaten generic drug production, data privacy rules and clean energy policies in order to extract payments that penalize governments for improving regulation and engaging in other policies to achieve public goals and public goods.

Trump's USMCA proposed to extend intellectual property protections further to producers of biologic drugs—medicines that come from living cells and contain proteins and other materials that can treat diseases and conditions like cancer, rheumatoid arthritis and multiple sclerosis. Biologics have been found to be the most

**WE CAME INTO THE PANDEMIC  
WITH SYSTEMS THAT WERE  
BRITTLE, UNFAIR AND  
UNSUSTAINABLE.**

significant driver of increases in U.S. prescription drug prices. Forbes magazine reported that “biologic drugs represented 2 percent of all U.S. prescriptions, but 37 percent of net drug spending. Since 2014, biologic drugs account for nearly all of the growth in net drug spending: 93 percent of it, in fact.”<sup>65</sup> For this reason, Democrats in the House of Representatives insisted on removing these new monopolistic protections for biologics before they would agree to vote on the trade pact. In a study about the U.S.-Chile Free Trade Agreement that has similar provisions to protect big pharmaceutical firms that Trump wanted in the USMCA, scholars found that indeed the treaty significantly increased the price of biologics even further.<sup>66</sup>

Going forward, U.S. trade policy needs to encourage rather than restrict competition and innovation in the pharmaceutical and medical product industries to ensure rapid deployment of new treatments and lower prices for American and global consumers. Moreover, the U.S. and its counterparts need the policy space to deploy supportive measures that enable the return of manufacturing in essential medicines and treatments both in the U.S. and elsewhere to be able to satisfy global needs.

The Trump administration has also been pushing to extend protection to big tech platform and data firms that will allow them to further consolidate their global market share, profits and political power at the expense of competition and consumer privacy. Trump's terms prevent countries from requiring that data be stored within their borders to protect sensitive personal and financial data. The terms shield internet platforms from liability for harmful content, even as debate over such policies is underway within the U.S. itself. His trade team insisted on inserting these protections for platforms and data firms in the USMCA and the recent trade deal with Japan at the behest of tech lobbyists, ignoring domestic concerns and debates.

### **ENVIRONMENTAL RESILIENCE AND SUSTAINABILITY**

With respect to the environment, old problems like polluted air and waterways and now climate change defy borders and their solutions require cross-border cooperation. However public efforts over many decades to raise environmental standards to protect workers and

communities have been evaded by footloose corporations. U.S. trade policy has enabled polluting firms to move to Mexico and beyond and then export back into the U.S., rather than keeping firms at home.<sup>67</sup> Trump's USMCA fails to even mention climate change, despite the fact that the WTO and the United Nations have shown that trade agreements increase carbon dioxide emissions and that North American emissions from fossil fuels are already the second largest of any region in the world.<sup>68</sup>

Instead, trade and investment treaties should be used as tools to harmonize upward national policies aimed at combating climate change, since the benefits of any single country implementing policies are lost where production can migrate to countries without, or with lower, regulations. Trade rules can help shift the global economy away from fossil fuels in a manner that is fair and socially inclusive. A new trade policy should prioritize and incentivize clean energy investments and goods and services that prevent, mitigate and help adapt to climate change. Just as importantly, it will be necessary to use the regime as a tool that creates disincentives for fossil fuel-based trade and significantly curbs trade, investment and technology flows of goods and services that exacerbate climate change. Revised trade rules should recognize the potential contribution that carbon taxes could make and explicitly permit use of border measures including taxes, tariffs and denial of entry for goods that harm the environment.

Within the trade and investment regime itself there should be provision for adjustment financing for those workers and communities currently dependent on fossil fuels to shift into new frontier sectors of economic activity in an inclusive manner. This could build on the precedent of the North American Development Bank

(NADBank), which was created to win sufficient votes for passage of NAFTA. The NADBank has financed environmental projects along the U.S.-Mexico border with limited resources. Financial and institutional support for such cross-border adjustment should be significantly increased.

### **“THERE ARE NO GOOD JOBS ON A DEAD PLANET”**

The global labor movement coined this slogan, which captures both the need to urgently address climate change and to do so in a way that ensures that all workers can have decent jobs that support healthy households.

Multiple efforts are underway to turn these imperatives into practical plans to achieve what climate scientists say is essential to save the planet, namely a national zero-emissions plan as close to 2030 as possible. Popular mobilizations like the Sunrise Movement, often led by teenagers, are putting energy behind the push. And groups like the Labor Network for Sustainability and Sierra Club are finding ways to bring labor unions, communities and environmental advocates together to forge practical ways to make a transition that is just for all

workers, including those whose livelihoods now depend on the fossil fuel industry, and for all communities, including those that have been harmed by racism, ethnic discrimination and environmental dumping.

The energy that is being poured into these efforts can be stopped or reversed at the border by bad trade and investment policy. That is why the fundamental reforms discussed in this paper are an essential contribution to good jobs and fair communities as well as a just transition to a healthier planet. The U.S. should also consider establishing an “adjustment bank” alongside trade agreements that would aid a just transition, with resources to help workers in stranded industries get retraining and income support.

## **OVERHAUL RULES ON INVESTMENT, CAPITAL FLOWS, AND TAXES TO PRIORITIZE THE PUBLIC INTEREST AND END INCENTIVES FOR OFFSHORING JOBS**

U.S. trade and investment policies have made it easier for large corporations to move not only their products, their production facilities and jobs but also their money around the globe with less government oversight and regulation. This has increased the power of multinational corporations to pit workers against each other as they seek lower labor costs and to pit nations, states and communities against each other as they seek tax breaks and weaker environment regulations.

To be pro-worker, pro-health and pro-environment, U.S. trade policy need not be anti-foreign investment. But policymakers should put conditions on international investment and capital flows both into and out of the U.S. to ensure that the benefits flow to workers and their communities — not just to corporate executives and the wealthy. We outline the changes needed to trade and investment policies and to tax policy.

### **END TRADE AND INVESTMENT POLICIES THAT ENCOURAGE OFFSHORING AND PROFITEERING**

One of the most extreme examples of excessive power granted to corporations through trade and investment policies is the right to bypass domestic courts and sue governments in supranational arbitral tribunals. As noted above, foreign investors can use investor-state dispute settlement (ISDS) systems to file claims for millions and even billions of dollars in compensation against a wide range of government actions that allegedly reduce

the value of their investment. According to the United Nations Commission on Trade and Development (UNCTAD), foreign investors had filed more than 1,000 claims against governments around the world as of 2019.<sup>69</sup>

A large share of these cases involve natural resource and energy policies, while health and pro-worker reforms can also be targeted by such lawsuits. For example, the government of Egypt had to spend six years fighting an investor-state suit over a national minimum wage increase. Pandemic-related policies, such as requiring foreign-owned production facilities to shut down to protect workers, could also be potential grounds for investor claims.<sup>70</sup>

These investment rules and arbitration mechanisms encourage U.S. corporations to ship jobs to low-wage, low-regulation countries by reducing the policy space for foreign governments to improve environmental and other regulations in the future. The USMCA made a small step in the right direction towards curtailing these excessive investor rights, phasing out the ISDS system for disputes between the United States and Canada after three years (in 2023). However, USMCA still allows U.S. energy, fossil fuel and other firms to take action against Mexico if that country makes environmental or industrial policy reforms that they claim would reduce their profits. As many civil society organizations have argued, the anti-democratic ISDS

settlement system should be eliminated altogether, in all trade and investment agreements.<sup>71</sup>

A pro-worker trade policy would also eliminate rules in trade and investment agreements that allow footloose financial firms to move Americans' hard-earned savings across the globe at a moment's notice without sufficient regulation to protect those savings from speculative bubbles and financial crises. Without proper regulations, large financial firms that manage savings accounts and worker pension funds can speculate on stocks, bonds, currencies and derivatives instruments the world over. Moreover, our trading partners can face stiff sanctions—by the U.S.—if they seek to regulate the inflow and outflow of those finances to protect their own workers and financial systems.<sup>72</sup>

Prohibiting such capital controls and recent attempts to limit currency exchange rates can hurt the American worker in two ways. First, as became abundantly clear in 2008 and again during the COVID-19 crises, financial instability can deliver a heavy blow to pension accounts that can take decades to recover—even though the financial firms themselves are often bailed out. Second, when our trading partners suffer crises, the United States loses export markets, which can lead to layoffs at home.

A new U.S. investment policy should start by eliminating the provisions in the current trade and investment model that encourage or even require deregulation and forbid other governments to limit

footloose capital. A new U.S. policy should also pro-actively require that foreign investments in the U.S. include responsible policies regarding jobs, wages and the environment. Currently, the U.S. government screens certain large foreign investments for narrowly defined national security concerns. The Committee on Foreign Investment in the United States (CFIUS) primarily focuses on issues related to foreign control of U.S. technologies and real estate. As the pandemic has laid bare, the economic insecurity faced by millions of American workers made the nation more vulnerable to crisis. U.S. trade and investment policy should establish new reciprocal mechanisms for the United States and our trading partners to allow screening of large foreign investments to ensure they contribute to more broadly defined national security, including real economic security, providing decent jobs and benefits for local workers, particularly vulnerable groups, and avoid environment harm. As an illustration of such policy, billions of European manufacturing investment dollars flow every year into southern U.S. states with high unemployment rates, particularly among their large Black populations. These operations do create jobs, but much more could be done to increase wages and worker benefits, such as restricting the anti-union behavior by these firms, allowing workers to have a voice in corporate governance through mechanisms that are common in their home countries and offering apprenticeships for Black workers.<sup>73</sup>

## **REBALANCE TAX POLICY**

U.S. policy should also be reformed to address the problem of tax avoidance by multinational corporations and the wealthy that globalization has facilitated. By shifting their accounting practices to pretend that profits were made in tax haven countries and other tricks, these corporations evade hundreds of billions of dollars in tax payments every year. Multinationals that move jobs and production offshore gain additional ways of gaming the tax system, destroying jobs in the U.S. while shifting more of the tax burden onto U.S. workers and households. The revenue lost to the government siphons resources away from the public sector and programs that can help workers, communities and public health.

Trump has made matters even worse through the 2017 tax bill he and Republicans pushed through, which slashed corporate taxes on foreign profits from 28 percent to 10 percent, giving multinational companies a new incentive to send jobs overseas.<sup>74</sup> In addition, the bill cut the overall corporate tax rate from 35 percent to 21 percent, making it one of the lowest of any advanced economy and maintained or added loopholes that multinationals can exploit to further evade taxes. As a result, profitable Fortune 500 companies that publish enough information to calculate effective federal income tax rates paid an average of only 11.3 percent tax on their 2018 income. And 91 corporations—including Amazon, Chevron, Delta Airlines, Eli Lilly, FedEx,

Halliburton, IBM, Netflix, U.S. Steel and Whirlpool—paid no federal tax at all.<sup>75</sup>

Domestic tax policy reforms are essential to make large corporations and the wealthy pay their fair share.<sup>76</sup> In addition, the U.S. government, as well as state and municipal governments, should follow policies that are prevalent in European countries to require corporations receiving taxpayer subsidies to sign written guarantees to create good U.S. jobs. If they renege on these promises the subsidies should be clawed back.<sup>77</sup> But the offshoring problem cannot be solved entirely within our borders. A clear first step would be to terminate existing free trade deals with tax haven nations such as Panama that are driving a race to the bottom in taxation rates. The U.S. government should not reward them with preferential access to U.S. markets. New trade negotiations should include obligations to constrain tax competition and provide effective disincentives and enforcement mechanisms.<sup>78</sup>

The United States must also work with global partners to develop an international agreement with real teeth to crack down on corporate tax dodging, building on but going far beyond the negotiations launched by the G20 through the Organisation for Economic Co-operation and Development (OECD) to address tax base erosion and profit shifting. Instead, the Trump administration has done the opposite, recently walking away from global negotiations designed to ensure that big tech companies pay appropriate taxes

based on where they earn their profits. A new administration should rejoin those talks and pursue global tax deals that ensure that all corporations in all industries pay fair taxes wherever they operate and earn profits. In light of the huge public

spending—and resulting increase in public debt—needed to address the coronavirus pandemic, regaining the ability and exercising the will to tax corporations and the wealthy will be even more urgent.

## **GIVE WORKERS AND OTHER PUBLIC STAKEHOLDERS GREATER POWER OVER THE POLICY PROCESS**

This report has identified numerous aspects of current U.S. trade policies that require fundamental reform. It has offered detailed suggestions for new approaches to achieve recovery from the pandemic and to build a more equitable, stable and sustainable U.S. economy and global trading system. In addition to these substantive changes, the process of making U.S. trade policy also requires profound reform. This will entail changes both to the objectives of trade policy and to the oversight of trade negotiations.

### **OBJECTIVES OF U.S. TRADE POLICY**

Trade between nations has the potential to produce mutually beneficial results through channels such as specialization and productivity gains or by utilizing comparative advantages such as climate and resources. The trade liberalization of the post-war decades, based mainly on reciprocal market opening through gradual reduction of tariffs, offered a practical demonstration of widespread benefits from trade. The rules allowed countries to choose their own economic and social policy models and emphasized the benefits to all countries that came from widespread global employment and development.<sup>79</sup>

In contemporary practice, however, U.S. and many other trade negotiators operate with a competitive, neo-mercantile mindset, aggressively seeking advantages for favored firms and politically connected sectors in their own country at the expense of other countries. The disproportionate benefits achieved by U.S. negotiators for the U.S. financial, information technology, pharmaceutical and corporate agriculture sectors discussed in the sections above are examples of the results. This has led to the highly uneven distribution of gains and losses from trade agreements, both domestically within the U.S. and globally.

In the post-pandemic period we will need to rebuild the U.S. economy with a coherent overall plan and industrial, regional and local policies to repair the unequal and differentiated damage done to jobs and incomes in different households, sectors and regions of the country. As we do, the goal should be to correct the market failures and distortions that have long been evident and to construct an equitable, resilient and sustainable economy for the future. U.S. trade policy should be subordinated to these overall goals and sharply redirected away from

its current path, which emphasizes deregulation and profit maximization for corporations. Instead, the objective of U.S. trade policy should be a global trading system that facilitates our own and other countries' efforts at job creation, upward harmonization of living standards and transition towards a global green economy. In the short term this will mean that current global trade rules at the WTO should be pared back to basic commitments on market access and tariff levels. As already discussed, the complicated, pro-corporate rules on investment, intellectual property, government procurement and others should be suspended for the foreseeable future by agreeing to what is called a "peace clause," a moratorium pledging that countries will not challenge each other based on any of these rules. Over time, the U.S. objective should be to build a minimally intrusive trade regime that allows policy space for all countries to pursue full employment, public welfare and climate sustainability, one which respects different systems and political preferences and which identifies human well-being on a sustainable planet as the ultimate goal of economic activity, including trade.

Will U.S. trading partners agree to a short-term peace clause and a longer-term transformation of global trade rules? There are good reasons to think they will. First, all countries will be coping with the challenge of recovering from the pandemic-induced economic depression. They will need the space to implement policies specific to their conditions and a peace clause is a simple way to facilitate

that. Second, the pandemic revealed the distortions caused by profit-maximizing capitalism and hyper-globalization to a broad global audience. Many countries now recognize that business as usual is socially intolerable and politically unsustainable. They are likely to welcome the opportunity to revise trade rules that impose constraints on reforms to their own systems. Third, some countries always resented the intrusive rules and deregulatory requirements imposed on them by the U.S. through its superior bargaining power and will gladly agree to scrap them.

The global trading system should be the first priority for trade reform due to its encompassing nature, but bilateral and regional trade agreements also require reform. Again, the urgent first step should be a moratorium on enforcement of rules that prevent countries from recovering and restoring jobs and incomes, followed by renegotiation to bring the pacts in line with the overall social welfare objectives described above.

#### **OVERSIGHT OF U.S. TRADE POLICY**

U.S. trade policy is carried out by the U.S. Trade Representative, the negotiating arm of the executive branch, based on a set of broad instructions from the legislative branch and informed by a system of mainly corporate advisory committees. The negotiations are carried out in secrecy: proposals and counterproposals are classified as confidential information, unavailable to the public and media. Members of the advisory committees and

Congressional oversight committees are given clearance to see the proposals at some stages, but are formally required to keep the contents confidential.

There are several serious flaws in the current system. First, Congress, which has the constitutional authority to conduct trade policy, delegates it to the executive branch with only very broad guidance on objectives and limited oversight by a small subset of committee members during the negotiations. Legislators' ability to influence the ultimate outcome is exercised primarily through a "fast track" up-or-down vote to accept or reject a trade agreement in its entirety. Given the complexity and extent of modern trade agreements, this means that the legislative branch exercises little real oversight of the negotiators. The normal checks and balances between the legislative and executive branches are largely disabled by the fast track arrangement and policies that are made behind the closed doors of trade negotiations are forced through Congress as a take-it-or-leave-it bundle. Congress has the ability and authority to change the current overly broad delegation of its trade powers and this should be a priority.

A second key flaw can be found in the system of advisory committees. In theory these are supposed to bring a wide array of voices and interests to inform the executive branch negotiators. In practice, the committees are overwhelmingly dominated by private sector business interests, many seeking rents and monopoly or dominant status in overseas

markets. A review of the membership of the committees by the Washington Post in 2014 found that all but two of the nineteen sectoral advisory committees were made up exclusively of representatives of private firms and related business associations.<sup>80</sup> In the remaining two, agricultural trade and animal products, such private sector representatives made up 90 percent of the members. Under Trump, the corporate domination of trade policy has gotten worse. The overall advisory committee, the Advisory Committee for Trade Policy and Negotiations (ACTPN), which had nineteen private sector members and twelve public advocacy representatives (from unions, think tanks, state government and an environmental group) under Obama, continues to have nineteen representatives of private firms and related business associations but now has only three other members, one a Republican governor and another the president of a conservative, pro-business think tank.<sup>81</sup> The system of advisory committees in fact can be seen as open acknowledgement that the policy is one of managed trade to the benefit of politically influential corporate sectors and firms, rather than pursuit of any idealized notion of free or mutually beneficial trade.

The third and overarching flaw arises from the secrecy of the negotiations. Secrecy in public policy making is always contrary to principles of good governance, opening any process to corruption and capture by vested interests. In the case of trade policy, agreements that are hammered out in secret has facilitated the corporate

capture of negotiations to pursue policies that maximize profits while providing no public benefit or even causing public harm. The damage done by secrecy has grown worse as the emphasis of U.S. negotiators shifted from tariff reductions to measures that require changes in other countries' laws and regulations. These terms then freeze the pro-corporate rules in place, binding both the trading partners and U.S. regulatory policies in the future. Other countries can take action against the U.S. for failing to abide by these negotiated terms by imposing tariffs on U.S. products, while foreign firms can bring suits seeking damages in the private ISDS arbitral panels. As shown above, the deregulatory terms in question include policies that touch on politically important and sensitive issues including access to and pricing of medicines, digital platforms' liability for harmful content and food safety, among many others. When such issues are addressed in our domestic regulations there are mandatory, transparent processes that allow a broad spectrum of public stakeholders to express their preferences and hold policy makers accountable. When trade negotiators determine which policies to advance through binding trade treaties they do so in secrecy, despite the fact that the resulting agreements constrain future policy space for both U.S. and foreign governments. Rather than the current regime which privileges corporations, the trade negotiating process should be made transparent with active, informed oversight by the public and Congress,

## **REFORMING THE U.S. TRADE POLICY PROCESSES**

The reform of these shortcomings in U.S. trade policy processes should begin with a requirement for transparency of trade negotiations. All U.S. and trading partner proposals should be made public when they are tabled, allowing for scrutiny and feedback from the public and legislatures, both here and abroad. The argument that this will deter countries from exploring compromises is unconvincing. If there are indeed mutual gains to be achieved that will broadly benefit the public in all countries party to the negotiations there is no need for secrecy. It is when trade negotiators seek gains for their private sectors at the expense of workers, communities or other societies that they have to be kept secret.

Second, Congress should abandon the so-called "fast track" approach to trade negotiations. Delegating its trade negotiating authority to USTR for a single up-or-down vote on huge and complex trade treaties is an evasion of its constitutional obligation to supervise trade policy for the public good. Congress needs to hold the executive branch accountable for trade agreements that are in the public interest in every congressional district. Transparency of negotiations will ensure that members of Congress feel the pressure to do so.

Finally, the existing advisory committee system should be scrapped and a new advisory system created that puts representation of public, worker and

community interests at its center. This will require that the large majority of participants come from organizations that have demonstrated their commitment to public welfare and their accountability to worker, social justice, community or environmental constituencies.

Representation of for-profit private entities should be only a very small share of participants. Committees should operate with full transparency: USTR should share all proposals and counterproposals with the committees and the committees should be required to share them with their constituencies and the public. Ensuring there is sufficient time for public review and debate is vital to creating trade agreements that are the best interest of working families, small businesses and family farmers.

## 5. CONCLUSION

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U.S. trade and investment policies form an important part of overall governance of the economy and its incentive structure and play an important role in the practical outcomes for workers and communities. Over recent decades these policies have changed in ways that are largely negative for social well-being, reinforcing bad domestic policy developments on labor, equality, health and environmental sustainability. The Trump administration has accelerated the damage, both on the domestic and international policy fronts. Now the severe distortions in the economy and the brittleness of social and health systems have been laid bare by the coronavirus pandemic. Recovery will necessitate fundamental reform of the current international economic framework and the U.S. must be a leader in that process. U.S. leadership is needed both

as a matter of its economic predominance in the world and also because it was the U.S. that crafted many of the worst policies of the current version of globalization. This paper has documented the resulting problems. We can create a new paradigm—one where government is used to serve the public good, not wealthy special interests. Instead of letting multinational corporations set trade policy, we can prioritize the needs of working families, the environment, democracy and human rights. We have outlined the many practical steps needed to correct the course. Now it is up to the public to decide on the future, not least through selecting political leaders who represent their interests.

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## ABOUT THE CO-PUBLISHING ORGANIZATIONS

The Global Development Policy Center (GDP Center) is a Boston University-wide interdisciplinary research center that advances policy-oriented research for financial stability, human well-being, and environmental sustainability ([www.bu.edu/gdp](http://www.bu.edu/gdp); [@GDPC\\_BU](https://twitter.com/GDPC_BU)).

The Institute for Policy Studies is a Washington, D.C.-based think tank dedicated to building a more equitable, ecologically sustainable, and peaceful society. ([www.IPS-DC.org](http://www.IPS-DC.org); [@IPS\\_DC](https://twitter.com/IPS_DC))

The Groundwork Collaborative is an initiative dedicated to advancing a progressive economic worldview and narrative. We are committed to collaborating with a diverse array of partners to advance an economic system that produces strong, broadly shared prosperity and abundance for all people, and not just a wealthy few. Our work is driven by one core guiding principle: we are the economy. (<https://groundworkcollaborative.org/>; [@groundwork](https://twitter.com/groundwork)).

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