

# The Benefits of GATT for the U.S. and World Economies

*A Roundtable Discussion  
by Dallas Fed Economists*

The General Agreement on Tariffs and Trade (GATT) was instituted in 1947 as a way to liberalize world trade. From the first round through the seventh, which was completed in 1979, tariffs on manufactured goods have fallen from an average of 40 percent to about 5 percent. Trade analysts say the most recent negotiations—the Uruguay Round—were the toughest to conclude. They could also be the most rewarding. Completed Dec. 15, 1993, more than seven years after it began, the Uruguay Round focused on reducing nontariff barriers such as agricultural subsidies, intellectual property protection and trade in services.

The significance of GATT to the U.S. economy is substantial. For example, the North American Free Trade Agreement (NAFTA) focused in large part on increased trade with Mexico, which represents 7 percent of U.S. trade. GATT—because it is multilateral and includes more than 100 countries—represents nearly 100 percent of U.S. trade. The Organization for Economic Cooperation and Development estimates that the latest round of GATT would add at least \$27 billion annually to the U.S. economy by the year 2002—about \$100 per year for every man, woman and child in the United States for the rest of their lives. As trade becomes more important to the United States, this figure is bound to become even larger.

**What difference will GATT make to the average American?**

*Gould:* GATT will make a difference primarily in two ways. With GATT, we will gain access to less expensive products that allow us to put more money in our pockets or toward other purchases, and we will be able to create jobs that are higher paying and apt to be around a lot longer.

As with NAFTA, GATT will mean more goods to Americans at lower prices. But under GATT, we will have access to a larger variety of products from around the world—such as consumer electronic goods from Japan and clothes from Italy—all at lower prices than before.

Also, we now pay a huge amount in the way of higher prices to protect jobs in some industries at the expense of others. Look at the textile and apparel industry. Consumers spend about \$25 billion a year to protect jobs in that industry—about \$50,000 annually per job. The recently completed Uruguay Round of GATT should eventually save Americans \$10 billion to \$15 billion per year in that regard. With all that money saved, new and better jobs can be created in industries in which the United States has a competitive edge, such as computers and other high-tech products.

**Is there any relationship between the new GATT agreement and expectations for economic progress?**

*Rosenblum:* Yes, GATT offers enormous possibilities for improving overall welfare. Take the case of a pharmaceutical company planning its research and development program for the next decade. If that company is expecting patent protection in just the United States, for example, it will choose to work on a limited range of low-risk projects. However, if that same company has access to a billion potential customers in dozens of countries and can expect to enjoy the intel-

lectual property protection offered by GATT, it will probably choose to invest in a larger variety of projects.

A commercially viable breakthrough on just one of these projects could result in finding a cure for diseases that have eluded our present-day research efforts. By broadening the scope of potential markets, GATT will encourage the development of hundreds of new products that can enhance our quality of life.

**What will GATT provide the United States in terms of economic growth that we wouldn't have attained anyway?**

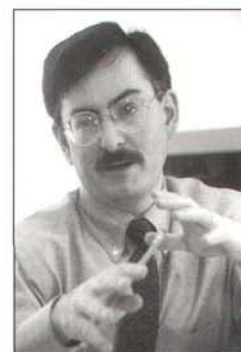
*Gould:* From the standpoint of the United States, two of the most important facets of the recently completed GATT negotiations were trade in services and intellectual property rights for patents, trademarks, industrial designs and such. These are the kinds of areas that hold the most potential for the future growth of the U.S. economy. You can see that today we have a huge surplus in services trade (*Chart 1*)—an indicator that our services are in demand—and that will only increase with GATT. The United States has many compara-

tive advantages—in research and development, high technology industries and identifying new markets, for example. GATT will allow the United States to continue to foster these comparative advantages.

There are also new rules regarding foreign investment outlined in GATT that allow for more rational economic choices. That means manufacturers in the United States and elsewhere will no longer be required to locate in a particular country just to have access to its markets. The United States is recognized as the world leader in productivity (*Chart 2*); more often than not, it makes good business sense to set up operations here. With GATT, U.S. and foreign firms can take full advantage of locating here to use U.S. labor and still gain access to developing markets.

**Doesn't the United States stand to lose more ground from the agreement than it gains?**

*O'Driscoll:* Americans believe they have a strong domestic economy because of the virtues of competition, but when it comes to international trade, people forget the virtues of competition and think we'd be

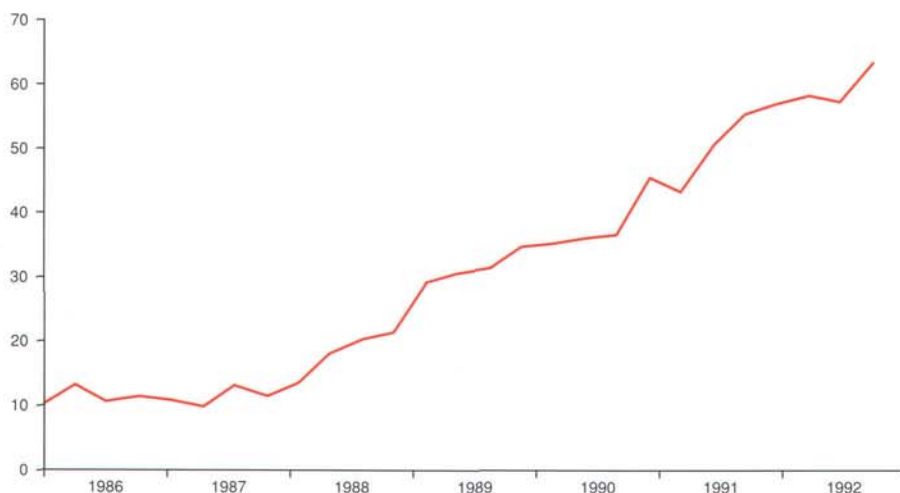


*"With GATT, we will gain access to less expensive products that allow us to put more money in our pockets or toward other purchases, and we will be able to create jobs that are higher paying and apt to be around a lot longer."*

—David M. Gould  
Senior Economist

**Chart 1**  
United States Enjoys a Large and Rapidly Growing Trade Surplus in Services

Billions of dollars



SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.





*"By broadening the scope of potential markets, GATT will encourage the development of hundreds of new products that can enhance our quality of life."*

—Harvey Rosenblum  
Senior Vice President  
and Director of Research

better off if we didn't compete. The same principle that makes our economy strong domestically—competition—is incorporated into GATT. We shouldn't be afraid of competition; it's the element that makes our economy strong.

Consider the automobile industry. With few exceptions, this country has always been relatively open to automobile trade. From the mid-1970s until just a few years ago, we saw the U.S. share of auto sales decline. We know now that the reason was our not keeping up with the competition. But look at the U.S. auto industry today. We are producing world-class cars and recapturing market share because we responded to the competition (*Chart 3*).

Would the United States have ever produced the top-selling Ford Taurus had it not been for the Honda Accord? Today, automakers in Japan and Europe are concerned not only with maintaining their share of production, but also with being able to sell the same number of cars in an expanding U.S. market.

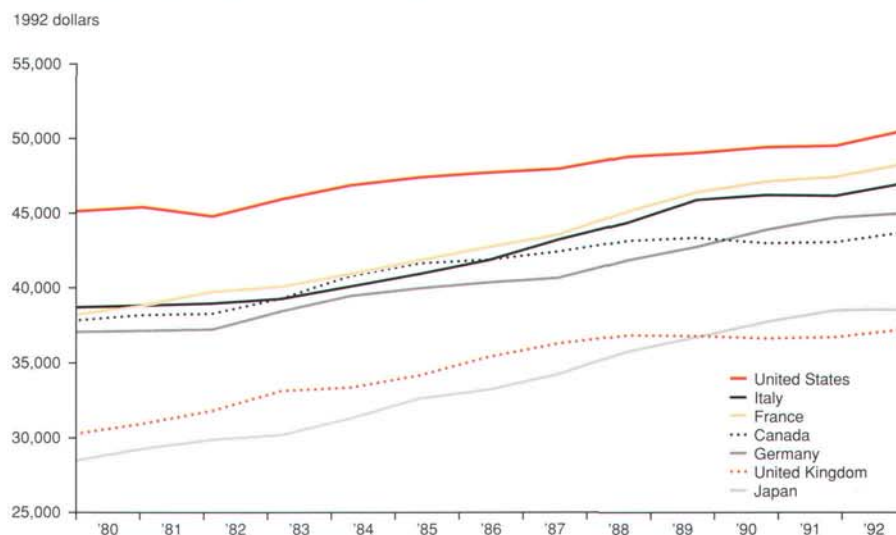
With GATT, that story will be replayed over and over again in other industries. You may not be able to pinpoint which industries at

this time, but the essence of competition is that a system is in place to consistently produce better products. Competition can be grueling, but it is a creative force that provides new and better ways to do things at a lower cost to consumers.

**But won't it hurt the United States economically to lose its sovereignty in trade matters to an international GATT bureaucracy that will oversee the agreement's implementation?**

*O'Driscoll:* At one time the United States was a dominant political and economic power, counterbalanced by the Soviet Union. We no longer live in a bipolar world, and the United States can no longer enter into negotiations thinking that we are going to get everything we want on every issue. There are simply too many countervailing interests in the world, and we must accommodate those interests to conduct successful negotiations. We will get some of what we want, and the other players will get some of what they want. GATT has provided a means for us to achieve many of our goals in world trade.

**Chart 2**  
United States Leads the World in Productivity



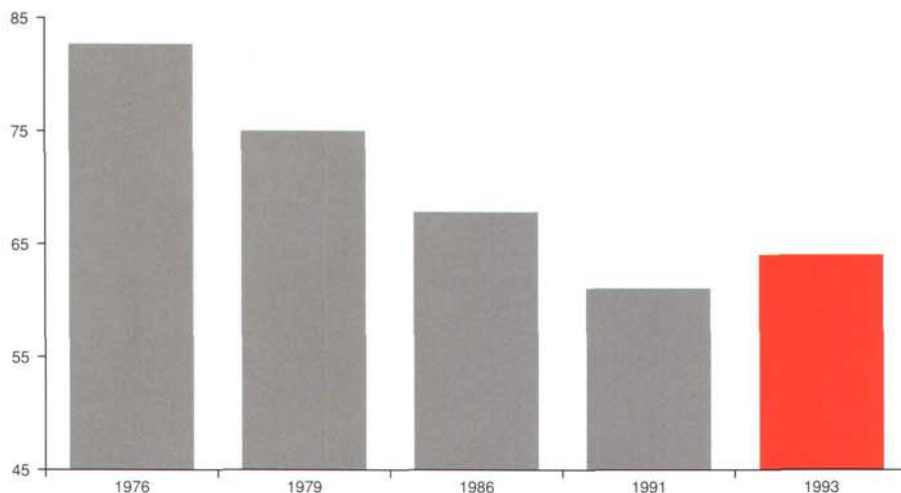
Relative levels of gross domestic product per employed person, based on 1990 purchasing power parities.

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

**Chart 3**

U.S. Automakers Look Toward a Turnaround in Their Share of Domestic Sales

Percentage of sales



SOURCE: American Automobile Manufacturers Association.

*Rosenblum:* Also, keep in mind that GATT has existed since 1947, which means the bureaucracy that oversees it has been around a long time as well. Look at the positive side: GATT serves as a kind of international court of appeals to protect our interests.

**But won't GATT cause jobs in the United States to be lost to developing countries?**

*Vargas:* Jobs in U.S. industries that don't have a comparative advantage over the rest of the world will be lost, but roughly the same number of jobs will be created in the industries in which we do have an advantage. Trade policy has nothing to do with the total number of jobs in the United States, or in any other country, for that matter. Trade policy affects only the composition of jobs.

Since 1970, the importance of exports to U.S. economic output has more than doubled (*Chart 4*). If you open up new markets that are demanding the products and services that we can deliver better than anyone else, you need workers to fill the jobs created by that demand.

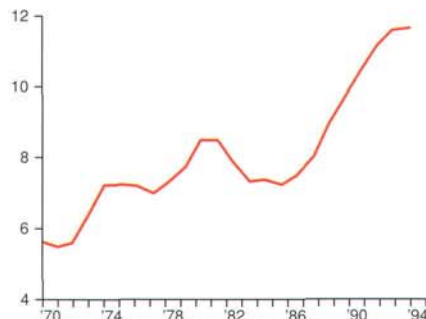
Where do the workers come from to fill these jobs? They come

from the old jobs in industries in which we don't have a competitive edge. And keep in mind, developing countries will also see a change in the composition of their jobs. With open trade, there will be job losses in the areas of their economies that were protected against more advanced imports, for example. So, just as there will be job losses in the United States in lower skilled areas, there will be job losses in developing countries in the areas that require more developed skills, areas where the United States has the advantage.

**Chart 4**

Exports Grow in Importance for U.S. Economy

Percentage of GDP



SOURCE: U.S. Department of Commerce.



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—Gerald P. O'Driscoll, Jr.  
Vice President and  
Economic Advisor





*"International accords like GATT help to foster a greater sense among developing countries that free markets, free trade and free enterprise are common elements between countries that are at the forefront of economic development and those that are striving to bolster their economies."*

—Lucinda Vargas  
Economist

Several environmental groups supported the North American Free Trade Agreement, but so far, all are against GATT. Will the environment be hurt by GATT?

*Gruben:* One of the chief concerns of environmental groups is that GATT allows foreign countries to take legal action calling for reductions in U.S. environmental protection laws in instances when the laws may be interfering with trade. However, in some cases, it appears the regulations are being misapplied in attempts to protect certain industries from competition.

Four years ago, to protest tuna fishing practices that had inadvertently resulted in the deaths of thousands of dolphins, the United States outlawed imports of Mexican and other foreign tuna. As a result, Mexico implemented broad changes in its tuna fishing practices but also appealed to GATT, arguing that the embargo was a form of protectionism.

Today, the United States' embargo persists, even though tuna fishing-related dolphin deaths in Mexico have fallen about 85 percent since 1986, and worldwide tuna fishing-related dolphin deaths have decreased from about 100,000 in 1989

to an estimated 10,000 in 1993. The continued embargo in light of these changes has prompted some analysts to argue that current U.S. policy reflects more of an interest in protecting the domestic tuna industry than an interest in protecting environmental resources. GATT will help resolve some of these issues by providing a framework for discussion and will, in effect, indirectly impose a discipline on the accord's partners to work with one another, rather than allowing all countries to play by their own rules.

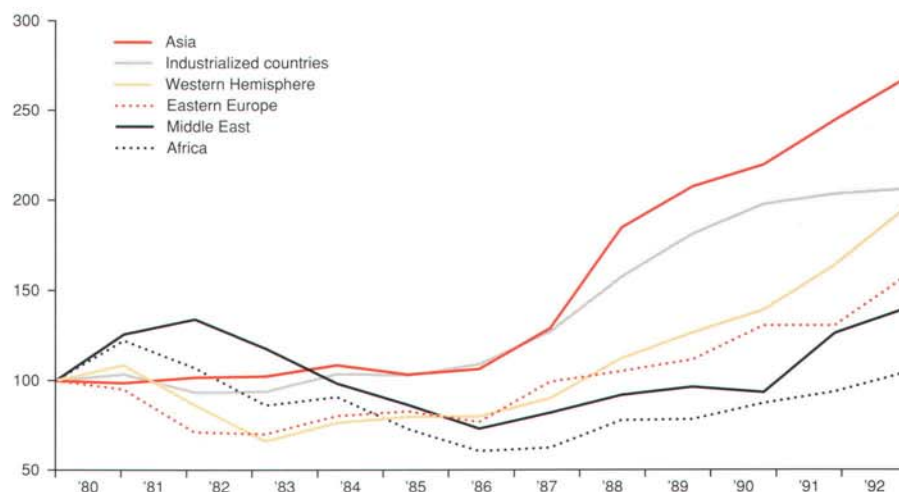
**Does GATT really provide a better way for the United States to trade globally, or does it simply bring us down to the levels of all the countries that are struggling to succeed?**

*Vargas:* It's important to keep in mind that all the countries that are part of GATT are current or future trading partners of ours. Especially with developing and newly industrialized countries, markets are growing for our goods and services (*Charts 5 and 6*).

There's also a special relationship that begins when an industrialized country like the United States

**Chart 5**  
U.S. Exports to Developing and Newly Industrialized Countries Are on the Rise

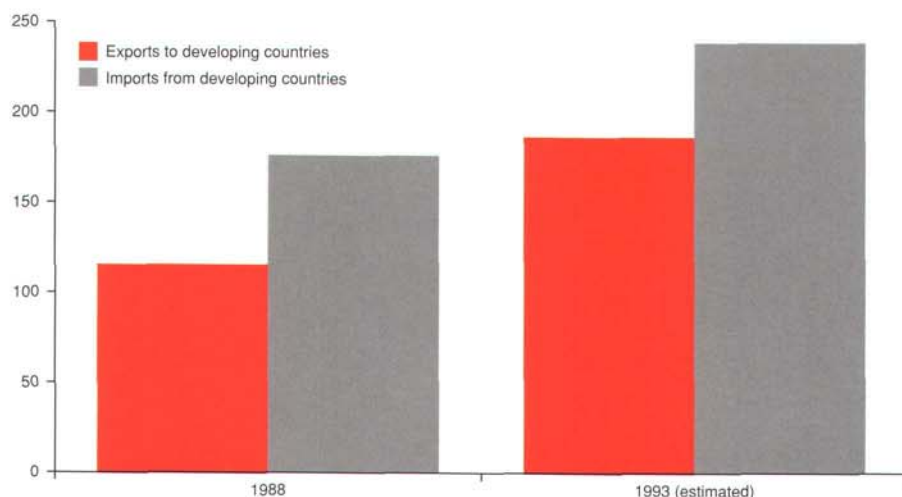
Index, 1980 = 100



SOURCE: U.S. Department of Commerce.

**Chart 6**  
U.S. Trade with Developing Countries Increases

Billions of dollars



SOURCE: DRI/McGraw-Hill.

and a developing country enter into a trade agreement. In just the last few years, more and more developing countries have embraced the free market concept as a way to achieve economic growth. International accords like GATT help to foster a greater sense among developing countries that free markets, free trade and free enterprise are common elements between countries that are at the forefront of economic development and those that are striving to bolster their economies.

*Gruben:* Let's also remember that developing countries can help raise the U.S. standard of living, but there are cases in which the government doesn't let them. When the government uses trade barriers to protect certain U.S. producers, the high profits these folks make selling to captive markets will attract capital and labor—not because these producers are efficient or deliver quality for a low price—but because the government has rabbit punched the competition, just because the competition happens to be foreign.

Attracting capital and labor this way—the noncompetitive way—actually distracts capital and labor away from what we do best to what

we do so poorly that the government thinks it has to stand between us and those who do it better. When the government embraces protectionism, the government is effectively telling American consumers that they shouldn't have quality at the lowest price—that they should pay higher prices to protect jobs in industries where, without government protection, jobs wouldn't have been in the first place.

When a developing country can produce and sell goods that we want at a lower price than we can, it enables us to focus on creating the goods and services that we produce most efficiently. That means capital and labor will be attracted to what we do best, not what we do poorly but, because of protectionism, profitably. It also means that American consumers can buy goods for less and American producers can buy inputs for less. That's the whole point of freer trade. That's what GATT represents.



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—William C. Gruben  
Research Officer