

Robert D. McTeer, Jr.

President and Chief Executive Officer

Tony J. Salvaggio

First Vice President and Chief Operating Officer

Harvey Rosenblum

Senior Vice President and Director of Research

W. Michael Cox

Vice President and Economic Advisor

Stephen P. A. Brown

Assistant Vice President and Senior Economist

Research Officers

John Duca

Robert W. Gilmer

William C. Gruben

Evan F. Koenig

Economists

Kenneth M. Emery

Beverly J. Fox

David M. Gould

Joseph H. Haslag

D'Ann M. Petersen

Keith R. Phillips

Stephen D. Prowse

Fiona D. Sigalla

Lori L. Taylor

Lucinda Vargas

Mark A. Wynne

Mine K. Yücel

Carlos E. Zarazaga

Research Associates

Professor Nathan S. Balke

Southern Methodist University

Professor Thomas B. Fomby

Southern Methodist University

Professor Gregory W. Huffman

Southern Methodist University

Professor Finn E. Kydland

University of Texas at Austin

Professor Roy J. Ruffin

University of Houston

Editors

Rhonda Harris

Judith Finn

Monica Reeves

Graphic Design

Gene Autry

Laura J. Bell

Ellah K. Piña

The Southwest Economy is published six times annually by the Federal Reserve Bank of Dallas. The views expressed are those of the authors and should not be attributed to the Federal Reserve Bank of Dallas or the Federal Reserve System.

Articles may be reprinted on the condition that the source is credited and a copy is provided to the Research Department of the Federal Reserve Bank of Dallas.

The Southwest Economy is available free of charge by writing the Public Affairs Department, Federal Reserve Bank of Dallas, P.O. Box 655906, Dallas, TX 75265-5906, or by telephoning (214) 922-5257.

Beyond the Border

Just Say Yes to Chile

A Commentary by William C. Gruben

Research Officer

Federal Reserve Bank of Dallas

Negotiations began in June to add Chile to the North American Free Trade Agreement. But in the United States, naysayers from both sides of the political spectrum have begun to quibble about voting for fast-track authority, which would allow the administration to negotiate a trade agreement subject to congressional vote but without congressional amendment.

U.S. officials have from time to time complained that the glacial procedures of the General Agreement on Tariffs and Trade kept us from agreeing to mutually beneficial trade openings as large as U.S. policymakers would prefer with all countries. The United States has for years been urging developing countries toward free trade and has invoked sanctions when they didn't move fast enough. The central theme of the Summit of the Americas last year in Miami was Western Hemispheric economic integration.

Now is the time for the United States to send a message that it isn't kidding about free trade, even when a potential partner is a developing nation that can't use our country as a safety valve for its unemployment problems. Fast-track authority for negotiations with Chile would send a message to the rest of Latin America about the commitment the United States professes.

A free trade agreement with Chile ought to be a no-brainer. In the last decade, Chile has privatized the great majority of its public corporations, liberalized investment markets, slashed tariffs and moved from a military government to a democ-

racy. A commonly used statistical measure of corruption places the country at the same level as the United Kingdom and Denmark.

Chile has already solved policy problems that have kept other Latin American nations at the chalkboard. As a result, Chile, unlike other countries in the region, has had 11 years of uninterrupted growth.

The purpose of liberalizing trade with any country is efficiency. Trade protectionism at any level really means that government is bestowing uncompetitively high profits on some industries, the protected ones, at the expense of the buying public. But trade protectionism also means that, because of these uncompetitively high profits, capital and labor are misdirected to firms and industries that are profitable because they don't compete and directed away from firms and industries that can compete without such interference. With freer trade, capital and labor will go where they are most productive, instead of to a profitable but less productive use. With free trade, market signals will bring greater efficiency, which is simply more total output from the same capital and labor.

With fewer than 14 million people, Chile is a small country, considerably less populous than the state of Texas. It nonetheless holds opportunities for greater efficiency, and the message Chile's membership in NAFTA would send is a cheap form of advertising for more open trade with much larger Latin American countries.