GLOBAL JOURNAL OF COMMERCE & MANAGEMENT PERSPECTIVE
(Published By: Global Institute for Research & Education)
www.gifre.org

Thoughts on the TPP: A Demurring American View on Trade

Todd J. Barry
Ph.D. student, University of Southern Mississippi, USA
International Development Program, Gulf Coast
730 East Beach Boulevard, Long Beach, MS 39560

Abstract

The Trans-Pacific Partnership (TPP) is a wide-ranging trade agreement, recently under discussion, that has the ability to affect numerous countries in and along the Pacific Ocean, including the United States. This paper is a commentary, or short communication, that begins by looking at economic theory, to show that the agreement would have varied consequences for different groups. In particular, the issue of income inequality is an important topic currently in the United States' political discussion, which could be effected by the outcome of the talks. This is shown, methodologically, through a discussion of the history of economic trade theory. An American economist's view is then offered to critique the plan and offer suggestions for future trade dealings.

Keywords: David Ricardo, income inequality, international business, international trade, tariffs, Trans-Pacific Partnership, World Trade Organization

Introduction

With the "Trans-Pacific Partnership," a proposed global trade agreement between the United States and Asia, currently under debate, and America's 2016 presidential election process beginning, it is useful to turn to international economics to understand the current controversy. Economists in general support the idea of free trade. The medieval view of "mercantilism," where every kingdom was looking for gold to fill their own coffers, with no recognition of joint gains, was replaced in the early 1800s. The new theory was from British economist David Ricardo: comparative advantage. Nations were not theorized to be competing directly against one another, but working with one another to trade for those goods which did not have a cost production advantage. Some today do not understand why a business glut or stock market decline in some part of the world negatively affects another, instead of benefiting it. It is simply because most nations are not in direct competition with each other, but are still tied to one another. Put simply, they produce different goods and services. Still, the international relations theories of whether states should "realistically" look only after themselves, or "liberally" look after everyone, is economic just as it is political.

Free trade lowers tariffs, which lowers costs to consumers, the primary benefactors. They reap the rewards of happiness, what economists call "utility." Over the last two hundred years economists have had time to learn other distinctions. Economics, at least since its classical period, has been a study of what T.R. Malthus called "scarcity," of limited resources of land, labor, capital, technology, and human capital, such that their "distribution" has been preeminent. In the mid-1800s, British economists and legislators, such as John Stuart Mill, debated the "poor laws" to help the less fortunate. Most importantly, though, after World War II, American economists, led by Paul Samuelson, showed that all economic systems, from the most laissez faire and free market to the most socialist, contribute to those businesses and citizens who "win" or "lose" in distribution economically. Ricardo was not wrong, but trade does affect members of a country or society differently (Salvatore, 1-63).

Not only are producers and consumers effected by trade, but producers, and owners of factors, resources, and intermediate goods, are also effected. Microeconomics also shows that sales taxes, similar to tariffs, distort buying decisions more-so than simple income taxes: similarly, tariffs can change the terms of trade, or "offer line," affecting macroeconomic trade decisions. Free trade deals originated in the time of Ricardo, with the Corn Laws, but they began to involve the United States and other nations around the time of World War II. In 1944, representatives met at Bretton Woods, New Hampshire to iron-out the future's economic system. Among other undertakings, the conference established a World Bank for long-term loans, an International Monetary Fund for emergency loans, and the General Agreement on Tariffs and Trade. This became the World Trade Organization in 1995, with complex rules for numerous "rounds" of negotiations which have taken place between wide-ranging countries (Salvatore 250-251).

Oddly, international trade as a percentage of global Gross Domestic Product increased from 40% in 1990, and then declined in the past several years, from about 61% in 2011 down to 60%, the same as in 2008, for reasons amongst economists that are not clear. Liberal American economist Paul Krugman notes that there is no economic law stating that this figure should always be increasing ("A Troubling Trajectory," 1). There may be a limit, and the answer does not depend solely on trade barriers. A primary reason why may be due to multiple countries with flexible exchange rates each following both expansionary monetary and fiscal policies over a lengthy time, in this case over the Great Recession. This in total may cause a neutral effect on account balances, and thus net stagnation on trade: meanwhile, Gross Domestic Product slowly increases domestically, in the denominator of the equation. The trend will end when there is a productivity or other domestic change in one nation, which can eventually spread to all nations, or there is a change in policy. Therefore, the idea that free trade agreements could restart a stalled period might seem promising (Salvatore, 207).

However, the proposed "Trans-Pacific Partnership" is an enormously complex agreement, which would involve 40% of the world's current Gross Domestic Product, larger than any agreement past or even future, including NAFTA, the North American Free Trade Agreement, passed in the early 1990s. The TPP negotiations began in 2002 at an Asian-

Pacific (APEC) forum, before the onset of the Great Recession. It did not go through the World Trade Organization supposedly because the "Doha rounds" had proved unfruitful. The plan, which most Americans know nothing about, started off small between several nations, and then gradually added more members, including the United States, which essentially took over, in 2008, and Japan in 2012. President Obama's recent, singular stop in Oregon to educate the public about the deal has unfortunately done little to inform them (Rajamoorthy, 1).

The "TPP" agreement is one between numerous Pacific and "Pacific-looking" nations, including Australia, Canada, Brunei, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam, but it is primarily between the United States and Japan. Supporters in Japan call it the third "opening," the first when Commodore Perry arrived in 1853, the second following World War II. Japan's agricultural producers, however, the industry which, along with textiles, are the most controversial internationally, are weary of the agreement, when usually they have supported Prime Minister's Abe's slightly more conservative party. Tariffs that Japanese firms must pay to trade autos into the United States are so low, at 2-3%, that future reductions will have little impact (Mizohata, 1-2). Others feel it will hurt their health care industry. In theory, *American* tariffs should be higher than small countries', because as a large state, and thus a "price setter," it needs optimally to gain revenue to offset losses from declines in volume. While imports are not included in the Gross Domestic Product tabulation, tariffs can protect domestic industries, but risk retaliation and losses of Ricardian cost efficiency, shown by the failure of import substitution industrialization in Latin America in the 1970s, from slower productivity (Kreinin, 82).

The agreement is not just economic, but political in the sense of strengthening relations at a time when Japan and China are at odds over disputed islands in the South China Sea, which have oil, military, and historical grievance implications. It is part of America's "pivot east," to contain China, a country not included in the deal. But, while China is using its new Asia Infrastructure Investment Bank to increase its ties with regional and global powers, and is constructing a new "silk road' transportation route to Europe, the United States need not rush to respond *economically*. It would be better to salvage our own domestic, military budget problems, and strengthen cyber security. China almost certainly realizes that its economic future is also strongly tied to the United States, such that if it ever takes any drastic action in its U.S. bond ownership, it would also affect its own country (Rajamoorthy, 1).

Some American groups are afraid that only 5 of the agreement's 29 chapters address traditional trade issues. Many of the others involve services, such as finance and telecommunications, never before included. A number of "hidden barriers," such as Asian firms preferring to trade solely amongst themselves, persist. Because many of the involved countries have government-run businesses, the negotiations have focused on private firms. The U.S. agreed since it too has several private-public partnerships that it wanted left-out, such as Fannie Mae, Freddie Mac, and the U.S. Postal Service. The U.S. has sought strong copyrights for music and film trade, and stronger patent rules. Approval for generic drugs, though, would be harder, which has worried Congress, and there would be no labeling of genetically modified foods. Unfortunately, the deal would give foreign companies the right to sue each other over any impediments they find, even over hypothetical future impediments. The U.S. relented over this regarding tobacco, leading anti-smoking groups to worry that international tobacco companies could sue nations that tax cigarettes or ban cigarette advertising (DePillis, 1-5).

The main benefactors of the agreement, due to "sweetheart" deals, seem to be the U.S. yarn, poultry, supply chain firms, and Internet companies, Japanese autos ("Trans-Pacific," 1-9), foreign mass food producers, digital technology, and biological medicines (Mizohata, 1). Japan will also be able to save its tariffs on its "sacred" products, rice, wheat, and sugar, so long as they allow more to enter, and it keeps its 9% tariff on beef, while pork, sugar, and dairy remain disputed ("TPP: What's," 3). In addition, Vietnam, though once a communist state, will see a complete reduction to 0% of U.S. apparel tariffs, and is pushing for an end to a yarn rule that has traditionally benefited U.S. exporters, and instead would harm U.S. yarn firms ("TPP: What's," 5). Technology rules call for collaboration. Enforcement seems weak, only based upon new "international tribunals," and since countries rarely go to the World Trade Organization for violations, such as Chinese dumping of steel or tires, it is unlikely that enforcement would even be possible. It also seems unclear how changes would be made to the agreement in the future ("Trans-Pacific," 1-9).

The overall process has not been entirely without U.S. lawmaker input. The U.S. Trade Representative, associated with the Commerce Department, discussed the plan with 16 of its formal advisory councils, which involve some legislators. One positive estimate is from the Peterson Institute for International Economics, but car and airplane workers will face stiffer Japanese competition. A beneficial aspect is that the U.S.'s Office of Information and Regulatory Affairs will conduct cost-benefit analyses on new rules, and the U.S. will encourage other countries to reciprocate, creating future institutions. Trade imbalances can arise amongst countries when some countries use budget deficits to finance imports for cheaper prices and greater utility, while other countries prefer exports for investment and growth, which should yield greater utility in the future. Some economists like India's Amartya Sen stress capabilities, or greater choices and options for consumers, and greater utilization of resources by society. Most gains from the TPP, though, will be to America's wealthy, elite class, shown in a study by The Center for Economic and Policy Research (DePillis, 1-5).

With the U.S. presidential race beginning, the issue over income inequality, and now the TPP, is pitting Democrats against Democrats, and even some Republicans against Republicans. Former Secretary of State Hillary Clinton hired over 200 economic advisors, for a total of $300,000, to create a new economic strategy, concluding that technology is the cause of America's income inequality problem. As workers cannot learn new productivity methods, they fall behind. This has been known by economists since the works of Jan Tinbergen in the 1970s (Pressman, 195). The United States, which in the post-World War II world created an industrial class, and educated class, and a leadership class, is turning into an almost classless nation, in which society, not history as some scholars have noted, has succumbed. The cause is not only technology, but the trade which is leading the United States to specialize, in Ricardian fashion, solely in high tech goods. When workers cannot reach their full talent of employment, it conceptually is an underutilized resource and lowers growth.

On the Democratic side, the main rows have been between President Obama and such ideologues as Sen. Elizabeth Warren of Massachusetts, Sen. Sherrod Brown of Ohio, and Sen. Ron Wyden of Oregon. On the GOP side, although they have in recent years supported free trade, they are weary of giving President Obama a political victory (Sracic, 1-4).

It is not this author's doubtfulness that is based on labor or environmental standards, financial rules in the U.S.'s Dodd-Frank bill, or even currency manipulation, but instead that of disparity. Even the Peterson study shows that the TPP would only increase American GDP by 0.13% over a decade. While the Council of Economic Advisors says it will raise U.S. incomes 0.4% per year for a decade, Ann Harrison of the University of Pennsylvania finds exports are hurting total wages 3%, and ¼ of the decline in manufacturing from 1990-2007 was from Chinese competition ("Fighting the Secret," 1-2).

Certainly, the U.S. should not desire a return to the sweatshops and robber barons of the start of the last century, but an idyllic in-between situation, such as that of early post-World War II years. The United States should push, through the WTO, for minimum wage laws in developing countries that would not only help them, but help make U.S. workers comparatively more competitive. Since 1978, the top 1% U.S. individuals' share of pre-tax income has increased from a low of 8.95% to 22.46% ("Income Inequality, 2"). Meanwhile, since 1972, the GINI coefficient measurement of income inequality increased, for U.S. households, from 0.39 to over 0.48, with a major change in 1992 ("The Major Trends," 2).

Largely, the TPP is a program that has been created in secret, by some 600 multinational firms, with Senators telling horrendous tales of having to go to a secret room beneath the United States Capitol Building, and cannot even take notes on their readings. Recall the genesis of the Obama administration, which promised to be the most transparent in history, but presidents are often compelled to support plans that have been worked on at length.

On May 13, 2015, the United States' Senate agreed to a deal leading to "fast track authority," also called trade promotion authority, which gives the President's administration power to negotiate trade deals. Fast-track authority needs to be constantly renewed; the last time it was passed was in 2002, but it expired in 2007, without renewal since. Originally, the House of Representatives voted down the bill for Trade Adjustment Assistance (TAA), which would have given aid in retraining and unemployment payments to U.S. workers displaced by the TPP, in a vote of 302-126. Representative Nancy Pelosi, the minority leader from California, said, "our people would rather have a job than trade assistance" (Bradner and Walsh, 3-4). The intention was to slow down the progress of the fast track bill. Both bills, the TAA plus fast track for the TPP, would have been needed to be passed together to go back to the Senate, under Congressional rules (Fang, 1-2). Many Democrats, who were in opposition, were angered that the bills were combined with the African Growth and Opportunity Act, feeling it was a trick to gain their support for the bills ("Senate puts," 1-2).

The final result was that Republican and House leaders promised to allow stand-alone votes on the TAA, promised a stand-alone vote on the trade bill with sub-Sahara African countries, and gave assurances of legislation to enforce trade laws, ("US House," 1), followed by cajoling by the Obama administration of fellows Democrats, although there was no movement on an offer by Representative Pelosi to vote for the bills in return for a highway construction bill from the Republicans (Bradner and Walsh, 4-5). Consequently, the House passed fast track for the TPP 218-208 on June 18 ("US House," 1), and the Senate passed the stand-alone TPP fast track bill 60-37 on June 23 (Geewax, 2). These ultimate votes gave Democrats the political clout to say they helped displaced workers in voting for the TAA, in running against primary challengers, and clout against anti-trade, pro-sovereignty Republicans, in the next general election, as well ("TPP: Fast," 1). Full details of the deal, which still needs several more months of negotiation before a final Congressional vote sometime in the Fall, will not be released for another four years (Sracic, 1-4).

On the whole, the TPP is a program based on fear, on a fear of losing out. It is a fear that the U.S. could lose its global leadership. But, Japan is already the United States' fourth largest trading partner, and Japan is still reluctant to open up to U.S. autos. Meanwhile, the U.S. has no trade deal with India ("Fighting the secret," 26). While cyclicality in some of America's industries could be buffered by greater trade, America's economy would be safer with a smaller plan. The TPP seems a return to the neoliberal economics of the 1980s and 1990s, with the "Washington Consensus" of all-out free trade, while ignoring the Post-Washington Consensus since the 1999 riots in Seattle which have focused more on "fair trade" and societal concerns. "Higher paying" jobs should not be the goal: hierarchal, higher paying jobs should be, which increase at a 45% angle in the Lorenz Curve, used to calculate the GINI coefficient, such that jobs just do not pay higher at the top but along the entire spectrum of jobs. As mentioned, according to economic theory, the TPP, particularly in the way it has been negotiated, would benefit America's highest paying jobs, and not the middle class.

Ricardo was not wrong, but there is an addendum: inequality, shown by many economists, which is a major problem right now in the United States, at a time when manufacturing jobs have started coming back due to higher global wages. One of these economists was Jacob Viner (1950), who wrote that producers may be hurt because others outside of the specific deal must still compete on intermediate parts with those inside it. This author's contention is not that free trade or globalization is bad, but that the United States should take its time, use greater transparency, include unions, and have smaller, less risky goals. "Fast track" should be reexamined for the future.

Furthermore, if the United States is too "respectful" in setting up international rules (Krist and Hughes, 1), then a lack of capital controls could result in the same financial crises of the late 1990s. A smaller, less-risky principal, taking into consideration income equality, should hold for approaching talks between the United States and Europe, with the rest of the Americas, and with the Middle East, but hopefully, simpler, single nation trade deals, such as recently with South Korea, will take precedence. All times of history require their own solutions, and this is not to say that a different policy should be followed in the future, once more research is conducted, and America works to ameliorate its income inequality dilemma. Moreover, it would be particularly helpful for the United States to convince foreign nations, especially in Asia, to consume more, especially for U.S. exports, which would be mutually beneficial. Also, the United States should educate Asia about the benefits of natural gas and other forms of renewable energy, which would help lower their "carbon footprint," and ameliorate some of the tension over oil-rich islands. Trade and governmental economic decisions are made by people, and people have the capacity to change, so therefore it stands to reason that globalization, the spread of goods and services around the world, contrary to what some scholars have suggested, is by no means inevitable, and there is always room for reinvention.

References/ Materials of Interest

"A Troubling Trajectory." (2014, Dec. 13). *The Economist.*

Bradner, Eric and Deirdre Walsh. “Democrats reject Obama on trade.” (2015, June 13). www.Cnn.com/2015/06/12/politics/white-house-tpp-trade-deal-congress/.

DePillis, Lydia. (2013, December 11). “Everything you need to know about the Trans Pacific Partnership.” *The Washington Post.*

Fang, Lee. “House Votes To Slow Down Fast Tract For Obama’s Trade Agenda.” (2015, June 12,). https://firstlook.org/theintercept/2015/06/12/house-votes-slow-fast-track-obamas-trade-agenda/.

“Fighting the secret plot to make the world richer.” (2015, April 25- May 1). *The Economist.* pg. 25.

Geewax, Marilyn. “Senate Votes to Advance The White House Trade Agenda.” (2015, June 23).

http://www.npr.org/sections/thetwo-way/2015/06/23/416854805/senate-votes-to-advance-the-white-house-trade-agenda.

Kreinin, Mordechai E. (2010). *International Economics: A Policy Approach.* New York, NY; Pearson Learning Solutions.

Krist, William and Kent Hughes. (2012). “Negotiations for a Trans-Pacific Partnership Agreement.” *Wilson Center.*

Mizohata, Sachie. (2014, Sept.). “The Trans-Pacific Partnership and Its Critics: An introduction and a petition.” *The Asia-Pacific Journal,* Vo. 11, Issue 36, No. 3.

Pressman, Steven. (2014). *Fifty Major Economists- 3rd Edition.* New York, NY; Routledge.

Rajamoorthy, T. (2013, November 10). “The Origins and Evolution of the Trans-Pacific Partnership.” *Global Research Newsletter.* http://www.globalresearch.ca/the-origins-and-evolution-of-the-trans-pacific-partnership-tpp/5357495.

Salvatore, Dominick. (1996). *Schaum’s Outlines: International Economics- 4th ed.* New York, NY; McGraw-Hill.

“Senate puts Obama on fast-track to TPP.” (2015, June 24). http://rt.com/usa/269497-senate-tpa-obama-tpp/.

Sracic, Paul. (2015, April 28). “Can Abe sway Congress over TPP?” *CNN.com (Opinion).*

“The Major Trends in U.S. Income Inequality Since 1947.” (2013, Dec. 5). *Political Calculations.*

“TPP: Fast- Track Is Back: Shall It Pass?” (2015, June 17). http://www.dailykkos.com/story/

2015/06/18/1394208/-TPP-Fast-Track-Is-Back-Shall-It-Pass.

“TPP: What’s at stake with the trade deal?” (2014, April 22). *BBC News.*

U.S. Chamber of Commerce. (2015, April 16). “Trans-Pacific Partnership.” https://www.us chamber.com/issue-brief/trans-pacific-partnership.

United States Trade Representative. (Retrieved 5/14/15). “Trans-Pacific Partnership: Summary of U.S. Objectives.” https://ustr.gov/tpp/Summary-of-US-objectives.

“US House passes standalone fast track bill giving president more authority in TPP talks.” (2015, June 18). http://rt.com/usa/268165-tpp-tpa-fast-track/.

Viner, Jacob. (1950). *The Customs Union Issue.* New York, NY; Carnegie Endowment for International Peace.

Brief Biographical Note

As a history graduate of Quinnipiac University, and an MBA holder in finance from Bryant College, Todd J. Barry is currently a dissertation level Ph.D. student in economic and political development through the University of Southern Mississippi, while residing in Connecticut. He has performed a number of internships in government, and has held several part-time jobs in business. He has published three children’s/young adult books, as an avocation, which are historical fiction with inspirational themes, and in the tradition of early economists who tried to improve society. They are: “Pierogies with the Pope,” about Pope John Paul II and Benedict XVI, “Shoofly Pie with the Pastor,” about the Amish and Mennonites, and “The Wonder of the White Butterfly,” about the Chilean miner rescue in the Fall of 2010. Simultaneously, he has published and is working to publish articles on economic history, political-economy, international trade/finance, American bureaucratic political behavior, and the historical comparison of different schools of economic thought. He as of today has presented at two international conferences.