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Time For New Glasses

A Discussion of Social Policy in a Global Economy

R. K. Morris*

I. SOVEREIGNTY IN THE NORTH AMERICAN CONTEXT AND IN A CHANGING WORLD

The first order of business of course is to congratulate Henry King and to thank him for this important and impressive conference. The topic choice in my view is brilliant, as fitting to the times we live in as any subject could be. The execution is clearly superb as evidenced by the outstanding lineup of speakers. He and his colleagues at The Canada/U.S. Law Institute and at Case Western Reserve University School of Law deserve high praise.

To be candid, I am not certain that I have a great deal to contribute to a discussion of "the integrating impact of trade and its effect on the ability of sovereign governments to use social policy as a lever to effect social changes." What I will try to do is suggest ways of looking at the problem, in other words, to offer a few thoughts on aggregation and disaggregation of the concepts of trade and social policy. The massive social problems that are caused by the billions of dollars worth of illegally traded drugs that enter the United States every year clearly present a different kind of relationship between social policy and trade than one sees, for example, in national security export controls or agricultural subsidies.

I have done what I can by way of damage control. I have added a new title, *Time For New Glasses*, in other words a new way of looking at America in the world, and I shall, at least, begin with a safe, apparent *non-sequitur*, though I hope it will seem relevant by the time I have finished.

Some of you may recognize the name Le Ly Hayslip. She is a Vietnamese American. Today she lives in San Diego. She grew up in a rice farming village, Ky La, outside Da Nang, Vietnam. She has written impressive accounts of both her experiences in Vietnam and her life in the United States. Mrs. Hayslip's transformation from Vietnamese peasant girl to successful American business woman is itself a fascinating illustration of how the kaleidoscope of the modern global economy affects individual lives. The fact that she is now operating clinics in

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Vietnam and the fact that there are thousands of human echoes to her story in the United States and Canada only underscore her value as such a symbol.

I would like to share with you Mrs. Hayslip's description of her first meal in the Continental United States with her first American husband and his relatives:

We sat down for my first American dinner and I shyly waited to see what everyone else did first. I knew some Americans said prayers for their food, perhaps to honor the dead animal they were about to eat, but this seemed like a silly custom. There was a time for praying and a time for eating. Did those same people say prayers when they did other ordinary things—when they made love or went shopping or relieved themselves. I just didn't understand their reasoning, particularly since Americans didn't seem like particularly spiritual people.¹

And then a sentence or two later:

My next hurdle was faking the use of their cumbersome eating utensils. In Vietnam, all food was taken with chopsticks or slurped from a bowl. Here, Americans employed as many utensils [in eating] as the cook had used to prepare the meal.²

Already, Mrs. Hayslip has given us a lot of food for thought. For example, whether we are talking about styles of eating, attitudes toward religion and the family, or the interplay between the cross-border social and economic activities of private citizens versus the habit of states to try to manage international relations, her life gives a useful context to questions that are relevant here.

The fact that she came of age in Vietnam only makes the case more poignant. There is a sentence that could lead to a lot. For now, we shall leave most of its radiating roads unexplored. One of those thoughts, though, merits mention. It is, in effect, my theme for this evening, which is that the United States needs to start thinking and acting like a smaller country at least insofar as commercial policy is concerned — not less sovereign, just smaller. In that sense, we could learn a lot from both Canada and from Vietnam.

When I say a smaller country, I do not mean one that is in any fundamental way less ambitious. Certainly, I do not mean one with a lower growth rate or GDP. I do mean one that increasingly accounts for a smaller share of world GDP. More specifically, I mean a country that is less able to change distasteful external realities, and so must adapt to them. And I mean a country that must take greater care in ensuring that the coin of influence abroad is spent in the service of

¹ LE LY HAYSLIP, *CHILD OF WAR, WOMAN OF PEACE* 15 (Anchor Books, Doubleday, New York 1993).

² *Id.*

clear national interests.

The point about a declining share of the world's wealth is easy enough to demonstrate. In 1968, for example, the United States accounted for approximately one third of total world output. By 1990, that was down to one quarter. More startling still, last year Japan surpassed the United States as the world's largest manufacturing economy, according to Kenneth Courtes of Deutsche Bank in Tokyo.

Measurements of this kind are undoubtedly imprecise, and even in today's world a \$6.5 trillion GDP still makes the United States the largest economy in the world. The fact that other people are richer than they used to be is certainly not bad news. Rich countries are better customers and better neighbors than poor ones. That is what many of us argued throughout the NAFTA debate, specifically that a richer Mexico would be a better neighbor than a poorer one. Still, in relative terms our influence is less than it used to be. The oft quoted observation that the United States, once the world's largest creditor, is now the world's largest debtor is just another illustration of the same point.

Back to Vietnam for a moment. I very much hope that we can soon establish a normal trading relationship with Vietnam, such as Canada, Australia, and Japan already have. It is hard not to wonder, though, how much influence the United States will have in that country in, say, five years, when we finally sign a long-overdue trade agreement with the Vietnamese. Will we really be competitive there against our Japanese rivals who have been trading with Vietnam since 1975, and who will have been indirect beneficiaries of the project oriented loans from the Japanese government to Vietnam? Those loans started flowing again last year (1993).

At this point, I would like to start listing things. I would like to list the underlying premises of these short remarks. I would like to list the factors I would urge you to regard as primary in considering international commercial developments. And I should like to list a few areas of social policy for consideration.

II. CONTINUATION OF THE NATION-STATE

First the premises. I take it as a given that the nation-state will continue as the world's most important unit of political cooperation. I suspect Michael Hart knows the leader of the Parti Quebecois, Jacques Perizeau, as I do not. A few years ago, though, I did have an opportunity to sit at a dinner table and to listen to him for a couple of hours. He is a captivating man.

His argument about the size of nations was quite compelling. It was the argument mentioned earlier this afternoon to the effect that, in today's world, it really does not matter how large a country is, so long as it is part of a larger trading unit, such as the European Union or North America. Whether or not that idea is valid for Quebec is not a

question that I am brave enough to tackle.

As a general proposition, however, I do not accept the thesis. Small countries may not long for absorption, but big countries have powerful incentives for wanting to remain big. Commercial advantage is probably not the most significant of these. Countries, like couples, have lots of reasons for staying together. Commerce is only one of them.

Even the most cursory look at civil wars, often struggles to stay together or come together, whether here in the United States or around the world, should quickly convince anyone that countries stay together, often at great cost, for the sake of a national vision, for reasons of cultural and, yes, racial identity and from a deep fear of anarchy. But there is also a commercial argument for cohesion. Big countries have more clout.

III. THE WORLD TRADE ORGANIZATION ETC. . .

I also take it as a given that international institutions will be even more important in the years ahead than they have been in the past. This is especially true of the new World Trade Organization (WTO), assuming of course that the U.S. Congress approves the appropriate implementing legislation between now and July 1995.

No one should confuse the World Trade Organization, the United Nations or any other international institution with world government. We can expect, though, that the WTO will become an increasingly important mechanism for managing commercial conflicts among nations, and for moderating the hostilities of bilateral disputes.

I am willing to trust it for the same reason I trust my calculator, though perhaps not as much. The rationale of the faith is nevertheless the same: It is difficult to imagine how a rigged system could function. With so many countries involved — 119 and growing — and with so many different interests at play, any system other than an essentially fair one would be quickly doomed.

IV. THE PRIMARY FACTORS OF TRADE

When I sit back and try to distill the meetings, telephone calls and press reports, it seems to me that commerce in the global economy is about three things, the interplay of three driving forces. That is two more than Freud or Jack Palance would allow, but still a manageably small number. Sex cubed, if you will.

In no particular order these are:

- the drive for markets;
- the drive for efficiency; and
- the drive for development.

These factors affect every rich country and every aspiring poor country.

They are constantly interacting dynamically with one another and with virtually every policy goal that societies have or contemplate. Success in these areas means wealth, and failure means poverty or relative poverty. And on that difference hang all but the most contemplative national aspirations.

V. MARKETS

The drive for markets is perhaps the oldest, most clearly recognized characteristic of nations engaged in international trade. Yet it, like the other two, acquires a new intensity in the global economy. This may be more the case for the United States than for Canada and certain other countries. Today, it is something just short of a platitude to note that fewer and fewer companies are willing to ignore exports because of the vastness of the U.S. domestic American market. But this is a relatively new development.

Ira Magaziner, now an architect of the Clinton health care plan, and Robert Reich, now in charge of the Department of Labor, wrote a book together a few years back entitled, *Minding America's Business*. It contained the startling figure that 70% of all American products compete against foreign products, either in foreign markets or in the U.S. market. Doubtless that number would be much higher if they were to recalculate it.³

In general, American firms do not have any market reserved to them and need to participate in markets around the world. If they do not, they will be eclipsed by their internationally more successful foreign rivals. But there is more to it. Increasingly, we see more and more diffusion of production, with firms and regions specializing in components rather than final products. The corollary to that is the effort on the part of companies, especially multinational companies, to supply broader geographic areas from fewer locations. I suspect that this dynamic is one of the things reflected in the fact that 40% of U.S. merchandise trade is in fact intra-company trade. The point is that these two trends — increasing product diffusion and the movement toward fewer if not single sources of supply for discreet items — fuel the drive for markets. If you are selling palaces or cathedrals, you might be able to get by with just one buyer, one sale a year or a lifetime. This is not the case if you are selling door knobs.

When I think about the drive for markets, I think of it primarily as something that companies do. The best companies are bloodhounds for markets. Governments become involved as facilitators. Obvious examples of such facilitation are the tariff reductions under NAFTA and the Uruguay Round of the General Agreement on Tariffs and Trade

³ IRA C. MAGAZINER AND ROBERT B. REICH, *MINDING AMERICA'S BUSINESS, THE DECLINE AND RISE OF THE AMERICAN ECONOMY*, 32 (Vintage Books, New York, February 1983).

(GATT). In some cases, governments are even more obvious allies of the corporate search for markets, as the U.S. government rightly was in the case of the U.S.-Japan Semiconductor Agreement, which has become a model for certain kinds of government intervention. The job of finding markets, however, is primarily a job of private companies, and government is as likely to be a hindrance as a help.

The current debate over U.S. trade with China should suffice as an illustration of this point. American firms have done their work. They have found tremendous opportunities in China, opportunities on which many of their futures depend. I for one would submit that their success is very much in the national interest of the United States. To the extent that Canada depends on a number of these same companies to generate both jobs and national economic success, it is also in the national interest of Canada. Yet it is jeopardized by U.S. policy. But that is an issue for later.

VI. EFFICIENCY

As for the drive for efficiency, its simplest expression is the goal to produce products more cheaply. Certainly that is not a new phenomenon. And yet it is. Firms with dominant and secure shares of large domestic markets, where they are looked to as major employers, have an interest in efficiency, of course. They do not have a passion for it. Passion comes when one's survival is threatened by more efficient rivals.

From my newspaper reader's vantage point, it seems to me that a lot of firms got passionate about efficiency in the last decade. The thousands of people who were laid off as a consequence of downsizing and restructuring are part of the evidence for that. So too, I would argue, is the greater competitiveness today of American firms, and the fact, for example, that we have reclaimed from Japan the honor of being the world's largest producer of automobiles.⁴

The Canada-U.S. Free Trade Agreement and NAFTA were also part of the drive for efficiency as it expressed itself in North America. The National Association of Manufacturers (NAM) and American manufacturers argued that the opportunities for production rationalization were among the principal advantages offered by these agreements.

Further, it is my impression that making their own firms more efficient was among the reasons listed by the governments of Canada and

⁴ Subsequently, The World Competitiveness Report 1994 listed the United States as the world's most competitive country, followed by Singapore, Japan, Hong Kong and Germany. This assessment, prepared by the International Institute for Management Development in Lausanne, Switzerland, and the World Economic Forum in Geneva is, in effect, further evidence of America's enhanced efficiency, even though the assessment itself depends upon several other factors as well.

Mexico for pursuing these agreements.

Notwithstanding those governmental actions in pursuit of efficiency — and trade agreements are acts of governments — the drive for efficiency is manifested first and foremost in the behavior of firms.

VII. DEVELOPMENT

The drive for development, however, the third of our three trade factors, is best thought of as a government pursuit. It is through development that governments try to fulfill some of the essential mandates of government.

I refer to the mandate to assist their citizens in the pursuit of richer, better lives — “A chicken in every pot,” etc. . . . I refer to the mandate to defend the nation and the people against “all enemies, foreign and domestic.” And I refer to the mandate to protect the honor of the nation by maintaining or advancing its standing in the various national league tables of the world.

In using the term development, I emphatically do not mean what our current lexicon suggests, namely something poor countries do. It is something that all countries do or strive to do, whether implicitly or explicitly.

In any event, the techniques employed by governments in the pursuit of development interact in fascinating ways with the pursuit by firms of markets and efficiency. In a nutshell, governments, with some regularity, compel firms to buy markets at the expense of efficiency in the name of development.

As you know, the tricks of this trade have a thousand names and faces. To list a few: “buy national” policies, compulsory licensing, forced investment and forced production sharing, and, of course subsidies.

The reference to subsidies is worth a moment’s comment if only because it tends to highlight the notion of America thinking like a smaller country, the idea that I mentioned earlier. Those of you who followed the subsidies issue in the Uruguay Round will know that, at the start of the Round, the philosophical position of the United States was simple. All subsidies to commercial enterprises are wrong and presumptively harmful to U.S. interests. U.S. goals in these negotiations were, first, to preserve and enhance U.S. countervailing duty law and, second, to try to increase international discipline over subsidies. The view held by most of our trading partners, including Canada, has long been that subsidies are a legitimate tool of government.

I know it is a long time to wait for a punch line, but surely someone somewhere laughed or smiled just a little when the Clinton Administration officials found themselves on Capitol Hill, justifying their negotiating tactics in this area on the basis of the need to protect U.S.

subsidies from challenge.⁵

As in so many debates, virtually everyone who has become involved in the subsidies discussions has a valid observation and is right to a certain extent. My purpose here is not to speak for or against either subsidies or U.S. policy. I do think it is interesting, though, that the U.S. government is again willing to acknowledge that subsidies can be legitimate tools, not simply for national defense, but for advancing U.S. economic development.

Rightly or wrongly, I feel some obligation to relate these comments to the GATT and to U.S. policy more generally. It was a former Deputy Director General of the GATT who once said to me that the purpose of the GATT is to get governments out of trade. Well, I do not think that is ever going to happen, nor should it. Even the U.S. Constitution cites promoting the general welfare as a reason for bringing the government into existence. Governments have too big a stake in trade to stay out completely. On the other hand, they desperately need a credible system of cooperation with agreed limits for state interference. That is what the World Trade Organization can be and should strive to become. The assumption is that each government will be sufficiently jealous of its own development to ensure that there are limits on the use of market-distorting development tools by others. And the hope is that an acceptable balance can be struck within the scope of the new GATT.

VIII. SOCIAL POLICIES

Because I believe that development writ large *is* social policy, I believe I have already discussed this topic. Even so, it may help to mention other, specific social policies and see how they are affected by this three-engine machine of trade.

IX. LABOR

Labor policy questions are perhaps the oldest companion of the trade debate. And they will remain part of that debate. Yet I would guess that, in fact, the world has entered a new era. The world in which good jobs could be protected with high tariffs or other protectionist devices is rapidly vanishing. For the reasons mentioned above, major investments need relatively open borders. In general, investors cannot afford to site production in high tariff, high protection countries.

Certainly, there are important exceptions. The Europeans have not given up on using tariffs to compel investment, and the Russians are

⁵ See, e.g., the March 9, 1994 testimony of Deputy U.S. Trade Representative, Ambassador Rufus Yerxa, before the Senate Finance Committee. The record of this hearing has not yet been printed but should be available later this year.

clearly flirting with the idea. But it is *passé*. For my money, that is the big lesson of NAFTA and the Uruguay Round. We will be dealing with adjustment issues for as long as we live, but the trend is clearly away from protection, and I suspect it is irreversible. Once one accepts that notion, the labor problem ceases to be a trade problem. It is a problem of education, health, and corporate efficiency, but it is less and less an issue of trade policy.

I recognize that such an assessment seems to fly in the face of the Administration's goal of using the World Trade Organization as a forum for discussing the relationship between trade and labor policies around the world. Doubtless those discussions will go forward, and doubtless they will serve to highlight differences in the labor policies and labor conditions in the various countries that will constitute the membership of the WTO. In these circumstances it would be worse than naive to suggest that the connection between labor policies and trade policies will simply wither away. Rather what I am suggesting here is that it is a one-way connection: Good labor policies, namely those that generate a highly skilled, motivated and well compensated work force, can improve the country's trade performance. There is, however, no easy or obvious trade policy instrument that can, by itself, improve the lot of any country's workers.

X. HEALTH, EDUCATION, CRIME

And what about health, education, and crime? Clearly addressing America's serious problems in these areas is critical. Frighteningly high crime rates and alarmingly large pools of poorly educated citizens undermine competitiveness. Addressing them can only help America in its international economic relations. Pressure and criticism may shame us some, but neither they nor trade deficits can really inspire us to deal with these threats. That motivational task will be done by stimuli closer to home.

The only important question here, then, is this: Will our international obligations, commitments, and relationships pose a bar to dealing with these large American social issues? There is no reason why they should with one caveat. This is that, in terms of competitiveness, paying for things is not the problem: the problem is how you pay for them. As was mentioned earlier today, the U.S. tax system is already backward when viewed in terms of trade competitiveness. One hopes that when we raise taxes to deal with these domestic challenges, as we are likely to do, we can find ways to do it that do not add further burdens to American exporters.

XI. ENVIRONMENT

Environmental issues are somewhat different. Environmental con-

ditions and environmental policies can place physical limits on production. Moreover, many, though not all, of the environmental problems we face can be managed only through international cooperation. And, of course, the environmental community — that is, the non-governmental organizations that specialize in environmental issues — has discovered trade. It has not yet, however, discovered the limits of its ability to use the trading system in the service of environmental objectives.

It seems to me that this is one of those areas where it can only serve American interests to think like a smaller country: one that must acknowledge the interests of others and one that is more likely to be the victim than the beneficiary of its own unilateralism.

XII. NATIONAL VALUES

My reaction when I read the description of this evening's discussion topic, namely trade and social policy, was, "I think a French farmer could deal with this much better than I will be able to." What I could not shake was the fact that, in my day-to-day life this spring, the nexus is not so much between trade and U.S. social policy. It is between trade and the social policies of others, namely China. Here I think we presume too much, and we are burdened by the Cold War history that we are having such great difficulty in shaking.

Not long ago, for example, I was in the office of a Congressman, a thoughtful person who was generous to share his time with a small delegation of business representatives. After we explained the importance of China to U.S. manufacturers he said, "But surely you are not advocating a simple extension of MFN [Most Favored Nation]." We said we were.

One of the companies on the visit went on to point out the difficulty of alternatives such as selective trade sanctions. As some of you may know, that thought has gotten a lot of discussion. Specifically, one hears proposals for trade sanctions against the state owned entities in China. The corporate representative, whose company produces a range of products, explained that all of his firm's customers are state owned enterprises.

The Congressman replied by noting that, it was a difficult choice, because, while one did not wish to interrupt U.S. sales, he said, neither did we want to build up the organs of the state in China.

I would submit that such an analysis presumes a level of conflict between the United States and China which we should ardently seek to avoid. That is, it presumes that our goal is the destruction of their government. We may hope for change, but we should operate on the assumption of peaceful cooperation and significant but limited U.S. influence.

XIII. CONCLUSION

I have referred a few times to the notion that America needs to think of itself as a smaller country, and I said that it was time for a new pair of glasses. What happens when you change from one pair to another? Well you get a different picture. This analogy could be annoying to the non-American, anthropocentric among you. Do not let it be. No nationality is being equated with any animal. It is making a different point.

In the first image, using the old glasses, Uncle Sam is a rotund and confident country squire walking with his hounds. When you change the glasses, he is a thinner, weary, L. L. Bean-clad weekend walker in the country who has gone too far. He is seen surrounded by wolves, stamping his foot at them and saying, "Heel."

Times have changed. We need to adapt. I think we in North America are good at that. And as for social policy, trade is not a threat to any of our hopes or aspirations. The threat rather is from insularity and from the political system's slow appreciation of the importance of trade and the reality of the global economy.

