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The Link Between Foreign Trade And Domestic Politics In The Clinton Economic Agenda

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Introduction

There has been much talk in the American press about America's turn inward and the coming of American disengagement around the world. Some commentators on both the right and the left of the political spectrum have encouraged such a strategy in order for the United States government to get the American economy "back on track." However, the belief that such a strategy is contemplated by the Clinton administration ignores the administration's general approach and understanding of the political and economic realities of the late Twentieth Century. With the globalization of the economy that has occurred in the last forty years it is impossible for the government of any industrial power to look exclusively inward for the sources of economic growth. In fact, the domestic mandate that Clinton received in the 1992 election has generated an increase in the search of external, international sources of economic stimulation for the American economy.

In the 1990's, it has become more difficult to speak of a clear separation between foreign and domestic economic policy. What happens in the Japanese semiconductor industry affects the direction and viability of the American computer industry. The interest rates established by the German Central Bank influence American bond markets. The days of a clear distinction between foreign and domestic economic policy have clearly waned.

This situation is the result of a general decline in the ability of any nation state to clearly control its economic destiny. Today, production solely for domestic markets is rapidly disappearing. Markets, resource allocation, and capital flows are today international in character. The attempt of any state to become isolationist in the context of a globalizing economy would be the kiss of death for any state seeking sustained economic growth.

It is in this light, the internationalization of the economy, that the Clinton domestic agenda must be understood. The concerns expressed that the Clinton presidency reflects America's "turn inward" or a type of "isolationism" neglect the economic and political realities of the last forty years. Clinton is the first president who came of age in the years after World War II, when the forces of globalization were generating exponential growth in international trade and commerce. Clinton became president at a time when international trade has become a central component of any domestic economic strategy. Therefore, Clinton's mandate to stimulate American economic growth is likely to produce an effect that is opposite to the neoisolationism suggested by some American and foreign commentators.

When considered in the context of United States domestic politics the seeming paradox in which the Clinton administration finds itself is evident. In order to become the "domestic president" Clinton must pursue an economic strategy that is essentially global in character. This domestic political mandate makes a unified strategy essential. It is therefore impossible to clearly distinguish between the domestic and foreign economic components of the Clinton plan. What is certain, however, is that the strategy depends on extending American economic linkages rather than developing an inward looking economic isolationism.

I. The Domestic Mandate

The contrast of a foreign versus a domestic president is all the more striking when one considers that in the Spring and Summer of 1991 President Bush's approval rating were some of the highest ever recorded for an American president, reaching a peak of around 80% in June of 1991. These numbers were sufficiently high to scare off many of the heir-apparents to democratic party leadership such as Mario Cuomo and Bill Bradly. In the wave of popular sentiment over the successful completion of the Gulf War, Bush clearly appeared unbeatable. Understanding how Bill Clinton became president demonstrates the primacy of domestic economic concerns in American politics.

Clinton's election resulted from a complex of factors. First, George Bush was never able to capitalize on the success of the Gulf War. The support for the war had been very soft from the start. Public opinion had been fairly evenly divided over the use of military force and the close congressional vote reflected this fact. The use of American soldiers to save an absolute monarchy from extinction made popularizing the war more difficult. Stating the need of the United States to defend its oil interests in the region also proved problematic as the idea of trading lives for a nonliving commodity would prove distasteful to the American moral pallet. Finally, a rather hollow sounding principle to justify American intervention was chosen, the "inviolability of borders," while the administration moved to demonize the person of Saddam Hussain, with the Hitler metaphor emerging as the most popular motif. George Bush won a close congressional vote giving him the authority to wage war in the winter of 1990-91, but the general ambivalence of the public toward the war made its political legacy uncertain.

By the winter of 1991-92, the war had actually become a liability for George Bush. The euphoria over the victory of "Desert Storm" had given way to allegations that the administration had participated in the arming of Saddam Hussain. A special prosecutor had been assigned to explore the depth of Reagan and Bush administration's involvement. More importantly for presidential politics, however, was what the war was becoming to symbolize in the minds of many in the American electorate. Increasingly George Bush seemed to be seen as someone who was more interested in the global "realpolitik" than a person who cared about what was happening on Main Street.

This situation proved disastrous for the Bush campaign in 1992. All the presidential hopefuls for the Democratic Party began to hammer at the Bush domestic policy, particularly its economic record, effectively neutralizing the victory in the Gulf War as a campaign issue. The disastrous consequences of the Reagan era credit card economic policies were increasingly being felt. The accumulated debt had climbed from under' one trillion dollars in 1980 to over four trillion dollars by 1992 giving rise to a general feeling of frustration and generating an anti-incumbency mood.

With supply-side economics discredited and with the Gulf War now turned into a symbol of Bush's disinterest in the plight of the American public, a coherent Republican campaign never materialized. When this context was combined with Bush's lack of personal charisma, the problems appeared to be mounting for the Bush campaign through the summer of 1992. The convention of August also did not help the republican cause, as the evangelical right wing of the party wrestled the platform away from more moderate elements. Even such long time Republicans as Richard Nixon and Barry Goldwater expressed concern over the future of the party in the light of this development.

The weakness of the Bush domestic policy, particularly in an environment of sluggish economic growth, made Bush more vulnerable than most analysts would have believed a year earlier. The public mood in the election of 1992 demonstrated that the public wanted a change, particularly in the area of economic policy. Clinton ran on the pledge to focus like a "laser beam" on the economy, and with that commitment emerged victorious in the fall election.

II. The New Democratic Center

During the fall campaign Clinton defined himself as a "new democrat." This description is often criticized as a cynical attempt to dupe the public, and one can certainly see an amount of political utility in such a claim. The democratic party had won only four of the eleven presidential contests from 1948 through 1988 and there was a need to disassociate the Clinton campaign from the democratic administrations of the past.

Nevertheless, there is something to the claim that Clinton represents a new democratic center, even when discounting the rhetoric. The traditional democratic alliance, formed during the Roosevelt administration, went through some attempts at broadening its appeal in the 1960's and early 1970's but had not fundamentally altered the base of its constituency. The traditional democratic coalition had included blue collar and other organized labor groups, minorities, and social liberals. This coalition has tended to be mildly protectionist on trade matters, accounting for their opposition to the North American Free Trade Agreement (NAFTA), while they have generally been more liberal in considering matters such as abortion rights, the death penalty, and social welfare.

Clinton does represent a break with this coalition, a "new democrat" of sorts, in two fundamental ways. First, he is less liberal on social policies than the traditional democratic coalition. He supports the death penalty, the "workfare" strategy of social welfare reform, and a fairly conservative approach to dealing with rising crime in the United States, all of which separate him from the core of the traditional democratic coalition. Second, Clinton has abandoned blue collar labor with his strong support of NAFTA and his approach to foreign trade.

This more conservative approach on social issues (with the exception of abortion rights), coupled with the defense of free trade, indicates that the democratic party is adjusting to new political and economic realities: a more socially conservative electorate, and a truly global international economic system. Seen particularly in his adoption of a free trade position, Clinton weds his domestic and international economic agendas. On economic matters Clinton has moved the democratic party, or at least he has attempted to do so, to an internationalist rather than a nationalist strategy. This is seen as essential to meeting the domestic goals that Clinton has proposed.

III. The Domestic Economic Agenda

Clinton's political future will rise or fall with the health of the American economy. He campaigned on a commitment to reinvigorate the economy, to provide jobs, and to stimulate economic growth. Since Eisenhower, only Ronald Reagan has completed two full terms in the office of the presidency. Clinton knows he must deliver in order to hold his office.

"Delivering" on the economy will not be an easy task. Clinton campaigned promising to cut the deficit, increase gross domestic product, create jobs, keep interest rates low, keep the defense strong, and minimize the impact of any tax increases on the vast majority of citizens. The task of meeting these goals is particularly difficult as the policy prescriptions that each goal suggests cannot be harmoniously reconciled, particularly the pledge to cut the deficit and simultaneously using government expenditures to stimulate growth and job formation.

Nevertheless, this was the strategy that the administration put forth in its budget proposal in the spring of 1993. The original plan was a mix of tax increases, program cuts, particularly in the Pentagon, and spending increases targeted at specific employment producing sectors of the economy. The original proposal committed $20 billion per year to public works projects designed to rebuild the infrastructure, and $50 billion per year to rebuild the cities, to provide education, job training and employment in the urban centers of the United States.

The $496 billion budget bill approved by congress in the summer of 1993 contained a version of the tax increases and spending cuts, but did not include the spending plans that the president had wanted. The declared goal of creating six million new jobs appeared particularly problematic as the cuts in the defense budget and the plan of "reinventing government" that vice president AI Gore was undertaking were likely to cost jobs in the coming years.

The lack of a spending initiative made the matter of increasing trade as a means to job creation and economic growth even more important. In the fall, President Clinton moved aggressively on three fronts: NAFTA, *APEC,* and GAIT. More than ever, exports became central to the success of the administration's economic agenda and the future of the Clinton presidency.

IV. The International Context

Failing to get the stimulus package out of congress and abandoning blue collar labor as the base of the democratic coalition meant that Clinton had to deliver on his promise to improve the economy. Clinton needs to build a foundation of support both in the public and within congress for his overall program. To do so, he must generate both economic growth and jobs. Stimulating the growth of exports is essential to that strategy. That strategy, however, must be formulated within an international context which has changed dramatically since the end of World War II.

Toward the end of World War II and in its aftermath a series of agreements were signed in order to manage the emergent system of global finance and trade. These included the Bretton Woods Agreement, the General Agreement on Tariff and Trade, and the establishment of the International Monetary Fund and the World Bank. Initially these institutions reflected one political and economic reality; the United States was the unchallenged leader of the world's market oriented economies. This situation left the United States in a unique position. With the dollar providing liquidity for international trade the United States was able to run domestic deficits with no inflationary pressure. Excess capital was being exported, often returning to the United States in the form of purchases of American industrial products.

This situation began to change in the 1960's as Europe and Japan began to reemerge as industrial producers. By the early 1970's the monetary structure established under Bretton Woods collapsed. This can be attributed to two causes. First, mismanagement by the United States as it sought to continue it's financing of both the Great Society and the Vietnam War. Secondly, and perhaps more importantly, the system was simply too cumbersome to manage the exponential growth in international trade. As production, distribution, and consumption were becoming truly international, a new structure emerged that provided the necessary flexibility; the float.

The float constituted a structural reform that has far reaching consequences. As floating exchange rates represent the development of currency markets that are free, or nearly free, of major government intervention this marked the beginning of a truly international economy. Floating exchange rates and free convertibility among the major currencies removed the structural barriers to the growth of international finance. This situation was clearly enhanced by the growth in telecommunication technology and the use of the computer. The result is that today there is essentially one global currency providing liquidity to the international system. Capital is today a borderless, nameless force searching out investments and profits. Within this emerging structure the nation state finds its power to control its economic destiny eroding with every decade.

Today, international capital blurs the distinction between foreign and domestic production. For example, which automobile is more American; the Ford Crown Victoria that builds its cars in the United States using 73% American made parts or the Honda Accord that is built in the United States using 75% American made parts? Is Xerox still an American company when half of the corporation's 110,000 employees work on foreign soil? Half of Digital Computers profits come from overseas operations, as does one third of the profits for General Electric. Half of the Sony Corporation's employees are not Japanese nationals. It is clear that the distinctions made between "foreign" and "domestic" economics are breaking down.

The current situation, while boosting global production, has produced a political crisis for the nation state. The legitimacy of nation state governments often depends on successful state policies to provide economic prosperity. Communication technologies have made governments accountable as never before in human history. Yet at the very same time government legitimacy is tied to performance, the structural tools for successful domestic economic management are harder to muster.

The response of the nation state to this emerging system has been the trading bloc. Most analysts today see the emergence of three significant blocs in international trade and finance; the European Bloc, the North American Bloc, and the East Asian Bloc. The "bloc" strategy has several advantages over the traditional nation state. First, it can create a larger pool of capital and markets than any nation can concentrate individually. Secondly, by creating a preferential or free trading structure within the bloc, an expanded domestic manufacturing sector can be offered some level of protection. Third, the concentrated weight of a market giant can enhance the political as well as the economic clout of the actors in international affairs.

However, the days of the trading bloc are numbered even as its present form is still evolving. It is the product of political not economic forces. It has been devised by political leadership that finds its legitimacy tied to the performance of the domestic economy. The political contingency found in the formation of a trading bloc will, therefore, offer only a temporary breather from the emergence of a global capitalist culture. British Air buys part of US Air and Japanese investors buy American golf courses. Capital need not respect this political surrogate.

V. The Clinton Strategy

The future of the Clinton presidency will depend on its ability to create employment opportunities and stimulate economic growth within a global economic context. Growth in the export sector plays a large part in the overall economic strategy, made even more important as the administration failed to get its way on its reinvestment plan. Administration strategist's hope to have the export sector contributing $1 trillion to the gross domestic product by the year 2000. This goal is to be achieved by creating a new "partnership" between business and government in the domestic sector, and an aggressive trade policy internationally.

On the domestic front, Clinton has moved to a more managed approach to the domestic economy in order to target the industries that the administration analysts believe are essential to America's competitive success. The administration has tried to generate interest in sharing research and development costs among major corporations. For example, the United States government has opened up its research facilities to Ford, Chrysler, and General Motors for the production of a smaller, more fuel efficient automobile. This could boost both foreign and domestic sales of American automobiles. In addition, the administration is working towards a program of fiscal stimulants to encourage the expansion of technology related export sectors. Even the health care proposal can be analyzed in this light, as the proposal offers to lower the health care premiums of large corporations from a current 20% of payroll costs to 7.9%, thus increasing the competitiveness of American companies.

In addition, the administration has moved to promote United States exports, spending $4.3 billion in 1993. The government has also formalized its linking of aid to the purchase of American products. The administration has also sought to reduce trade restrictions, many of which were put in place to curb the export of sensitive technology to the Soviet Union. Of a more controversial nature, the administration released a Cray supercomputer to the Chinese government over the objections of human rights advocates, and has sought a way to release the F-16s sought by Pakistan.

Increasing America's competitive position in high technology exports will not bear the necessary fruit unless markets are open for these products. Hence, the second part of the Clinton strategy has been to open up markets for United States exports. This has been pursued by an aggressive push for international agreements that will formalize the openness that the United States is seeking. This was pursued through the round of GATT talks completed in December 1993, as the United States accepted a compromise to assure that some deal could emerge that would open up markets for United States exports. .

The president's aggressive but unsuccessful push to formalize the structures for trade negotiations at the Asia Pacific Economic Cooperation (APEC) meeting held in November 1993 was clearly an attempt to push the United States into another trading bloc in order to secure better terms for United States exports. The strategy was simple, try and move the organization toward the formation of an Asian Pacific Community with the United States as a member. This would have clearly given the United States tremendous advantage over its European competitors in Asia. Unfortunately for the American administration the plan received a cool reception.

The most politically complex and revealing of these accords is the North American Free Trade Agreement finally passed by congress in November 1993. In supporting NAFTA Clinton abandoned the core of the old Democratic Party leadership. The president's break with blue collar labor is a political gamble that can only payoff if other sectors of the economy rebound, and if manufacturing exports grow. Opening up trade with other regions will be essential.

Conclusion

Today, the difficulty of formulating a successful domestic economic strategy cannot be separated from the larger context of the globalizing economy. In order to gain some control over their economic fate, nation states have moved toward regional trading blocs and associations. Foreign trade has become essential for a state's economic well being. In this context, separating foreign and domestic economic policy becomes increasingly difficult.

The Clinton economic program stresses the role of foreign exports both as a stimulus to job creating and as a major contributor to the gross domestic product. To achieve the ambitious goals the Clinton administration must open foreign market to United States' exports over the next few years. Support of the NAFTA agreement and the attempt to create a formal trading alliance among the APEC nations constituted steps in that direction. Compromising on GATT, releasing the supercomputer to the Chinese, and work on the freeing up the export of F-16s to Pakistan are actions that demonstrate how important trade has become to the Clinton strategy. Clinton's political future depends on generating growth from the export sector even if it means giving in on European agricultural supports, on human rights, or on suspected nuclear ambitions. Abandoning the core of the democratic alliance on NAFTA has been a political gamble that could erode Clinton's support in the 1996 election. He must deliver on the economy 6r face the prospect of being another one term president.

Will this export oriented strategy work? As yet, the outcome is unclear. However, there are clear dangers that could derail the Clinton plan. First, as was suggested earlier, the financial institutions of the emergent international capital culture are less interested in neatness of trading blocs than profits. Capital will follow profit, and therefore some of the formulas used to project the numbers into the future may not take into account the changing nature of future trade and investment opportunities. The optimistic projections of the Clinton administration may, therefore, be unwarranted.

Second, there is the danger that the trading blocs may pursue the protectionist strategies, once the exclusive domain of nation states. If this situation were to develop an economy that was export driven would be in serious peril. Completion of the GATT round should help this situation, even though the United States has not received all the concessions that it had sought.

Third, there is the possibility that free trade, opened under NAFTA and GATT, could actually work against United States manufacturing interests to the extent that even while some sectors profit from freer trade, the overall balance of jobs and trade may demonstrate a net loss. Free trade also opens up American markets to foreign competition. In a worse case scenario, additional manufacturing jobs leave the United States for Mexico, while cheap exports flood the United States from both within the North American bloc and from without. This is in many ways a worse case scenario for the Clinton administration, but it remains, nevertheless, a possibility.

Therefore, Clinton has taken a gamble, both with the American economy and with his own political future. It is a strategy which is consistent and well conceived, but it relies on events turning President Clinton's way. As the APEC meeting demonstrated, one cannot always depend on a favorable outcome. Even if the results of this economic plan are not yet clear one thing can be stated about the program without hesitation: that President Clinton's political career is riding on the outcome.