



To: Interested Parties
From: Simon Rosenberg, Robert Shapiro, and Joe Garcia
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Re: Meeting the Challenges of the 21st Century – Crafting a Better CAFTA

Summary

The United States Congress has begun consideration of the Dominican Republic – Central America – United States Free Trade Agreement (CAFTA–DR). While many progressives have reasonably rejected the Bush Administration’s proposal as inadequate to the task and an abandonment of the formula that worked so well in the 1990s, we believe that an agreement with Central America is so important to how Americans approach the 21st century that we must commit ourselves to help negotiate and pass a better CAFTA.

At its core, the debate over this agreement requires progressives to face squarely our own vision of how globalization can and should work, as well as how America can best promote economic and political progress by our Latin American neighbors.

This memo makes our case for why progressives should not let the Bush Administration’s flawed agreement doom a good idea. We describe how progressives can improve CAFTA–DR so it can pass with broad bipartisan support, with changes that would both reinforce our commitment to a prosperous and democratic Latin America and make 21st century globalization work better for the American people.

Your thoughts are welcome at www.ndn.org/economy.

Observation 1. Bringing nations into an open, global trading community has been a pillar of America’s successful foreign policy for 60 years.

In the 1940s, after years of devastating world war, America, led by Harry Truman, crafted a new progressive internationalism committed to spreading democracy, free markets, freedom, and the rule of law around the globe. This progressive vision, backed up by American resolve and global initiatives like the Marshall Plan, the U.N., the General Agreement on Tariffs and Trade (GATT), the World Bank, and NATO, led much of the world allied with America to an unparalleled period of peace and prosperity.

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Liberalized trade has always been an essential part of this successful strategy. In the 1950s and 1960s, America unilaterally opened its economy to foreign imports as part of a grand strategy to contain and counter the Soviet Union by creating strong economic ties with both the world's developing countries and industrialized nations. It worked: Not only did America boom, but the Soviet Union was never able to extend its influence much beyond the countries it occupied with military force.

After the end of the Cold War in 1989, America led the fight to bring this formula of democracy, free markets, freedom, and the rule of law to the nations newly freed from Soviet influence. Just as we fought to keep Western Europe free from communism after World War II, America worked with other great democracies to bring billions of people from Russia to China to India into the global family of nations. The 1990s was a period of rapid liberalization in all parts of the world and across many sectors. Our foreign and trade policies explicitly worked to expand the circle of modern market economies, ending a remarkable decade by helping China and India gain access to the World Trade Organization (WTO) and the global trading system.

In just the past twenty years, the share of the world's people living in extreme poverty (less than \$1 a day) has fallen by half, from 40 percent to 21 percent. America itself went through its greatest economic expansion in history in the 1990s. While there have been bumps along the way, the world continues to grow and has been largely at peace. Most nations today are democracies or attempting to become so, members of the United Nations, and members of the WTO. The American strategy crafted during the difficult struggles of World War II has succeeded, and while there is still much to do, it is clear that the world has benefited from this period of Pax Americana.

The one part of the world that has resisted the formula of greater economic and political freedom, the Middle East, is still exporting chaos and instability while its own social conditions deteriorate. Successfully bringing this formula to the Middle East must be one of top priorities for progressive politics in the years ahead.

In recent years, it has also been the policy of the United States to work with foreign governments particularly in the developing world to improve their labor practices, protections for human rights, and treatment of their environment, because we know how important all of these areas are to achieving stable and just societies.

Observation 2. Completing an agreement will make an important statement about America's commitment to encouraging the democratic and free market aspirations of Latin America.

The agreement comes at a critical time in our relations with Latin America. Completing an improved agreement will send a very clear signal across this region – including many still struggling to emerge from extended periods of autocratic regimes – that America supports their inclusion in the modern family of free nations. Completing this agreement can also help reverse a growing anti-Americanism in parts of Latin America arising from the Administration's clumsy handling of our relations with our neighbors.

Completing an improved agreement will also send a powerful signal that the United States understands that, more than any time in our history, our destiny and Latin America's are bound together. One of eleven U.S. voters today are Hispanic, and if current trends continue, Hispanics will number a quarter of the American population by 2040. More than ever, the United States is the capital of all the Americas.

A sustained American commitment to extending the formula of political and economic freedom to Latin American nations will not only foster their long-term development and growth, it is also an essential part of any successful strategy to stem the tide of illegal immigration into the United States.

For all these reasons, CAFTA-DR is not an ordinary trade agreement. Failure to pass an improved version would be a true setback at a critical time for an increasingly important part of the world. For more on the importance of the economic and political integration with Latin America to the growing U.S. Hispanic population, see our previous [memo](#).

Observation 3. As globalization has evolved in recent years, so must our policies. With more nations and people in the global trading system today, competition has become more relentless. We do not face the same challenges we did in the 1990s.

While on the whole, the rapid liberalization of the 1990s has been a success, it has also made it easier to move American work to lower wage countries. While good for profits and often for American consumers, these pressures are also hard on many U.S. workers. In recent years, even many jobs previously touted as 'jobs of the future' have been moved to other countries, creating even greater anxiety among many American workers who wonder where their future employment will come from.

Moreover, this rapid liberalization has generally intensified competitive forces across the global economy, making it harder for U.S. companies to raise their prices when

their energy, pension and health-care costs rise. Those pressures now cost Americans' jobs and put a lid on their wages and benefits.

The result: Despite the healthy GDP and productivity growth of recent years, average American wages and median incomes have dropped. This means that while overall economic measures may show recovery and growth, American workers are not benefiting as they usually do when growth is strong. Capital and corporations are prospering; many American workers are not.

In his new book, *The World is Flat: A Brief History of the Twenty-first Century*, Tom Friedman argues persuasively that these and other changes in recent years makes this new wave of globalization not just different in degree from what we faced in the 1990s, but different in kind. We face much tougher challenges that cannot be fully met with merely the approaches of the 1990s.

Observation 4. The failure of the Bush Administration's fiscal and economic policies has made the challenges of 21st century globalization more difficult.

In a previous [memo](#), NDN detailed how President Bush's reckless fiscal policies are weakening the United States and America's middle class. On top of that, the lack of a 21st century strategy to help workers compete in this much more competitive global economy also is taking its toll on working people in the United States.

Let's look at the record since President Bush took office. For the first time since the Hoover Administration, America saw a net loss of private sector jobs over an entire presidential term. Poverty, unemployment, health-care costs, the number of Americans without health insurance, personal and business bankruptcies, family energy costs, budget deficits and the national debt are all way up – and median family incomes, the stock market, and the dollar are all down, reducing middle class purchasing power.

America has dropped to 16th in the world in broadband access and still maintains a mobile phone architecture inferior to most other developed nations. Mr. Bush has even under-funded his own signature education initiative by \$30 billion, relegating to a hollow slogan what could have been a critical 21st century tool to equip our future workers with more skills. And as was reported recently in news media, even wages for highly-skilled American workers declined this past year, for the first time in over 10 years.

Observation 5. The Bush version of CAFTA–DR turned its back on a hard–fought bi–partisan consensus on labor standards and ignores the realities and challenges of 21st century globalization. Progressives are right to demand changes.

In the 1990s, President Clinton pursued a highly successful economic and fiscal strategy that created the longest economic boom in American history, turned Republican deficits in Democratic surpluses and rapidly liberalized trade. This strategy of fiscal responsibility, opening foreign markets, investing in people and raising environmental and labor standards around the world helped usher in our prosperity and forged a bipartisan strategy for responding to globalization.

Since taking office in 2001, the Bush Administration has abandoned the formula that worked so well in the 1990s. Profligacy and deficits have replaced responsibility and surpluses; the approach to labor and environmental standards best captured in the Jordan Free Trade Agreement has been reversed; and even existing programs to help the middle class have been under funded or in some cases cut. In short, it is the Republicans, not the Democrats, who have abandoned America’s commitment to an effective and modern globalization policy.

It is time for a better way.

An improved CAFTA–DR which progressives should support would have two essential new parts: tougher labor provisions in Central America, and a commitment to do more for the American people.

Recommendation 1. A new CAFTA–DR should include tougher labor provisions.

We should insist that CAFTA–DR does more to ensure that labor conditions in Latin America meet internationally recognized standards. We should encourage both parties to explore ways to improve labor conditions, considering a variety of possibilities such as higher standards, tougher enforcement, more public accountability, and greater involvement of the International Labor Organization. Including tougher labor provisions can help restore a broad bipartisan consensus for CAFTA–DR and responsible liberalized trade.

Recommendation 2. A 21st Century Compact for 21st century American workers.

American workers need a 21st Century Compact, a new bargain to help them compete and prosper in the tough global economy of the 21st century. In the great balancing between capital and corporations and people, the benefits have tilted too far away from working Americans.

Because globalization makes it harder for many American workers to succeed, our leaders must offer new solutions equal to the challenge of 21st century capitalism. NDN proposes that we undertake to seriously invest in and equip the workers of today and tomorrow (our children) with the tools they need.

Among the policies we should consider:

- Fully fund education reform, especially our poorest schools which have been received \$30 billion less than President Bush promised in the No Child Left Behind Act
- Ensure that all Americans have health insurance, and find ways to slow the increase in health care costs
- Raise the minimum wage
- Make quality child care and universal preschool accessible to all families
- Adopt a national strategy to ensure universal broadband access, upgrade our wireless networks, and develop the next generation Internet
- Strengthen community colleges and other workforce development programs
- Expand trade adjustment assistance to cover service workers, to help them retrain for new jobs
- Create a clear path to legal status – and better worker protections – for immigrants already working in the U.S.
- Support initiatives which encourage U.S. students to pursue math, science, and engineering and improve math and science teaching

To ensure that these investments do not increase U.S. debt and weaken our economy, we should pay for them by letting President Bush's tax cuts for the wealthy expire, including restoring the tax rates for the wealthiest Americans to their level in the 1990s, the period of the longest economic expansion in American history.

Conclusion

The times demand a new and better approach to globalization, one that works much smarter and harder to give current and future workers the very best chance possible to prosper in a world of increased competition and rapid change.

The foreign policy benefits of a trade agreement with Central America are clear. Many Latin American nations have moved only in recent years from dictatorships and oppression to democracy and freedom. A trade agreement with the United States has become an important symbol in much of Latin America of their inclusion in the family of democratic nations. Rather than continue to press for an agreement that will not pass, the Bush Administration should negotiate a deal that can.

With the case for greater economic and political integration with Latin America so compelling, it is critical that progressives do everything they can to encourage the creation of an agreement that can pass, while staying true to our principled advocacy for the middle class of this country.

21st century progressives must vigorously defend the global strategy that has led America and the world to 60 years of progress. We must also recognize when new times demand new solutions. The rigors of 21st century globalization and the failed policies of President Bush must be met with new ideas and strategies to ensure that as the world comes together, the vast American middle class thrives. Let us be the heirs of FDR in our compassion for those struggling today and for our children who deserve better than Mr. Bush's narrow vision.

Let us work with the majority to craft a better CAFTA-DR agreement, so it can pass with broad, bi-partisan support, reinforce our commitment to a prosperous and democratic Latin America, and make 21st century globalization work better for workers and families here in the United States and around the world.

And let us hear from you at www.ndn.org/economy.

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