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U.S. Trade Policy: Future Direction and Key Economic Debates

Congress plays a major role in shaping U.S. trade policy through the exercise of its constitutional authorities. Article I, Section 8 of the U.S. Constitution grants Congress the "Power To lay and collect Taxes, Duties, Imposts, and Excises" and to "regulate Commerce with foreign Nations." Congressional interest in trade policy also stems from the impact of trade on the economy, foreign policy, and national security of the United States and the economic success of firms, farmers, and workers. Through periodic enactments of Trade Promotion Authority (TPA) legislation, Congress has defined U.S. trade policy priorities and negotiating objectives for trade agreements, established consultation and notification requirements for the President to follow during negotiations, and granted the President authority to implement limited reciprocal tariff reductions with trading partners. TPA also has provided for expedited legislative consideration of broader trade agreements that meet congressional requirements.

Congress last passed TPA in 2015 (P.L. 114-26), but the authority expired in 2021, and President Biden has not asked Congress for its renewal. The President has indicated that he has no immediate plans to embark on new free trade agreement (FTA) negotiations, although he has launched trade initiatives that focus on targeted trade issues and may not require congressional action, such as the Indo-Pacific Economic Framework for Prosperity (IPEF) and the Americas Partnership for Economic Prosperity (APEP).

Members of Congress and the broader trade policy community have mixed views on the current state of U.S. trade policy and its future direction. As such, the 118th Congress is positioned for continued oversight, debate, and action regarding President Biden's trade policy agenda.

Effects of Trade Liberalization

Since the 1930s, some economists and U.S. policymakers across political parties have recognized the importance of negotiating trade agreements to achieve more open and rules-based international commerce, while remaining cognizant of potential costs to specific segments of the population. Past Administrations have used congressionally delegated authorities and tools to pursue and achieve trade liberalization (i.e., the removal of trade barriers). Congress has played a major role in shaping and approving these efforts (see **textbox**). However, concerns over the impact of greater import competition on some firms and workers have engendered ongoing debate and led to complementary legislative action to mitigate the potential negative effects of trade liberalization (e.g., Trade Adjustment Assistance [TAA]). The effects of these actions, and the mechanisms by which trade affects the U.S. economy, are difficult to quantify, which is partly due to the challenges associated with disentangling the effects of trade liberalization from those of other domestic and global economic developments.

U.S. Trade Policy Objectives and Tools

Since World War II, U.S. trade policy has sought to achieve several interrelated objectives. They have included (1) fostering economic growth and securing more open, equitable, and reciprocal market access for U.S. exports and investment; (2) protecting U.S. producers from unfair foreign trade practices and rapid surges in fairly traded imports; and (3) strengthening the rules-based multilateral trading system to help achieve the above objectives and further U.S. foreign policy. In seeking to fulfill these objectives, U.S. policymakers have employed an array of policy tools, such as trade negotiations, FTAs, trade remedies (e.g., safeguards), TAA, export promotion, trade preference programs, and economic sanctions.

Economists generally agree that, in the aggregate, the economic benefits of reducing trade barriers outweigh the costs. Nonetheless, the processes of trade liberalization and globalization present both opportunities and challenges for the United States. For example, reducing trade restrictions tends to lower prices, increase the variety of goods and services available to U.S. consumers, and increase the competitiveness of U.S. firms' and farmers' exports in global markets. Some studies also show that U.S. firms engaged in trade often achieve greater productivity and pay higher wages and benefits to their workers.

However, because the gains from trade tend to be more widely dispersed than the losses, the benefits are often not readily apparent or well quantified. As a result, some groups argue that globalization has benefitted some segments of the population more than others. Affected stakeholders often point to offshoring, job losses, stagnant wages, and rising inequality among some groups as indicators of the negative aspects of globalization. Yet, the causes of these trends are highly contested. The growth of global supply chains (GSCs)—combined with changes related to technology, labor productivity, consumer preferences, and broader economic factors—has also transformed or disrupted some U.S. economic sectors.

Trade Policy Concerns

Some Members contend that although past trade negotiations and FTAs have lowered or eliminated U.S. trade barriers, these tools have failed to keep pace with changes in the global marketplace, effectively address foreign protectionist practices, and enhance reciprocal market access for U.S. firms, farmers, and workers. In their view, some countries (e.g., China) "play by different rules" and conduct their economic and trade policies based on priorities that often undermine those of the United States. Concerns go beyond tariffs, focusing on issues such as industrial policy, labor rights, intellectual property, and the environment. In addition, the COVID-19 pandemic and Russia's war in Ukraine have exacerbated concerns related to globalization, import dependencies, and GSC vulnerabilities. To increase resilience, some Members call for "reshoring" production or limiting imports while others encourage using a greater diversity of foreign suppliers.

Some policymakers also point to alleged weaknesses in the institutional design of the World Trade Organization (WTO), including the limitations of WTO rules to address digital trade and nonmarket economy trade practices. To remedy these shortcomings, some Members support the imposition of unilateral trade restrictions. They view such measures as justified in the short-term to "level the playing field" and point to similar actions in the past that led other countries to eliminate their trade barriers and open their markets to U.S. exports. Other Members have encouraged the Administration to continue working closely with allies to improve the functioning of the WTO, use further trade liberalization to address concerns and emerging issues that existing trade rules may not cover adequately, and initiate or join trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

Key Areas of Economic Debate

The concerns described above have led some policymakers to question the rationale behind U.S. FTAs and global economic integration. They have called for suspending (or reversing) past efforts to liberalize trade and increasing trade barriers to protect domestic industries and workers. Many economists caution against protectionist measures because they impose costs on the economy as a whole that are likely to exceed any potential overall benefits. These costs can arise from implementation and enforcement, higher prices, inefficient resource allocation, and foreign retaliation. Two key areas of debate are evaluated below.

Employment. Jobs are constantly being created and replaced as some economic activities expand and others contract, and trade—like other market forces—contributes to this process. For example, both trade and investments in productivity-enhancing technologies may result in less demand for certain types of labor, while creating new job opportunities for others. Although some workers may benefit from these developments (e.g., those who get higher-paying jobs when exporters expand their production), others bear the costs (e.g., those who are displaced due to import competition or automation).

Economic theory suggests that the degree to which an economy is open to trade affects the mix of jobs within it, but trade has little impact on the *total* level of employment. Specifically, trade affects the mix of jobs because workers and capital shift away from U.S. sectors that are less productive relative to those abroad toward U.S. sectors in which the United States has a comparative advantage relative to its trading partners. For some policymakers, a key concern for U.S. trade and broader economic policy, therefore, is ensuring that displaced workers are able to gain the skills necessary to take advantage of new employment opportunities that may arise. However, a growing body of literature highlights potential challenges in workers' ability or willingness to move to new sectors when their jobs are lost or wages are dampened due to import competition.

In a large, dynamic economy like that of the United States, the main influences on total employment generally are a function of factors such as the business cycle, workforce availability, regulations, taxes, interest rates, education, and technology, rather than trade liberalization or greater import competition. Notably, imports may also be items that either are not available or are more costly to produce domestically or serve as inputs in domestic production, including goods that are subsequently exported—thereby supporting jobs and keeping costs low for U.S. consumers and producers.

Inequality. Some analysts and policymakers argue that globalization and trade liberalization—especially after China's entry into the global economy—have contributed to declines in the real wages of U.S. workers and growing disparity in wealth in the United States. Despite intense focus on this issue in the academic literature, there is no clear consensus on the net effects of trade on wage and income inequality. Some researchers have found that trade may have an impact on income inequality depending on the distribution of gains and losses across sectors and regions, but over the long term, a wide range of factors within the economy determines the distribution of income, such as economic mobility and technological change, with trade liberalization generally judged to be less significant.

Some studies have found that the slowdown in real wage growth and increased wage inequality may be the result of slow U.S. productivity growth and the bias in technological change toward greater use of higher skilled workers throughout the economy. This might increase their wages relative to those of the less skilled. Another factor that may have contributed to wage inequality is de-unionization.

Considerations for Congress

Economists and analysts generally assert that, for the United States, retreating from global trade, ceding institutional leadership, and raising trade barriers may not address the underlying causes of the adverse effects of trade on some groups, and may jeopardize economic growth and foreign policy goals. While some may justify protectionism under certain conditions (e.g., to safeguard national security), research has shown that it is generally ineffective as a means to address these effects or bring jobs back to the United States. Protectionism often imposes costs that outweigh the benefits and has unintended negative effects, not only on U.S. consumers that purchase imported goods, but also on U.S. industries that use those goods as inputs to their own production and that employ workers. In some instances, it can lead companies to shift production abroad.

As Congress engages with the Biden Administration to chart the next phase of U.S. trade policy, Members may examine the role of trade in the U.S. economy and how trade liberalization, or globalization more generally, affects U.S. employment, income distribution, productivity, and innovation. They may also assess the current U.S. trade policy approach to determine if it advances U.S. economic and security interests and/or if today's fast-changing global economy calls for a multifaceted approach—one that includes but is not limited to elements of trade policy (e.g., trade liberalization, FTAs, and WTO reform). Members may consider complementary responses such as labor, social, education, regulatory, and infrastructure policies that maximize the benefits and reduce or soften the hardships and costs from trade, increase economic resilience, and help ensure that growth is inclusive. These policies affect the overall U.S. economic climate and, as components of public policy, are subject to congressional action.

Andres B. Schwarzenberg, Specialist in International Trade and Finance

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