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Despite What Donald Trump Says, Free Trade Benefits Americans

Doug Bandow

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Trade is good for the U.S. Americans benefit from purchasing inexpensive products and services from abroad as well as selling their own wares around the globe. Americans must look overseas for markets: 95 percent of the world's people and 80 percent of the world's economy are elsewhere. Unfortunately, we all will suffer if politicians such as Donald Trump make trade a scapegoat for misguided government policies which have made Americans less competitive.

Much progress has been made through the World Trade Organization to free international commerce. However, global negotiations increasingly have stalled. Thus, regional pacts, such as the U.S.-Korea Free Trade Agreement, have become the new path forward. One of the most important proposed trade agreements is the Trans-Pacific Partnership, an accord among nations possessing 40 percent of the world's GDP.

Like most "free trade agreements," the 6000 or so page TPP offers freer rather than free trade. The countries negotiate for political advantage, which includes protecting sensitive industries and placating powerful interests. (For instance, the U.S. and Japan traded exemptions to protect their auto and agricultural sectors, respectively.) Nevertheless, overall barriers to commerce would fall.

TPP's most important members are the U.S., Japan, Australia, Canada, and Singapore. Less developed signatories include Malaysia, Mexico, Peru, and Vietnam. Other nations may join in the future. Among the most obvious candidates are India, Indonesia, South Korea, Philippines, Taiwan, and Thailand. The biggest uncertainty is China. It possesses the most important economy in Asia—rapidly closing with the U.S. globally—and has been drafting free trade agreements with several of its neighbors. Nevertheless, Beijing retains significant state controls and remains reluctant to make some of the legal changes required by TPP.

The pact eliminates some 18,000 tariffs (99 percent of those currently in existence), reduces non-tariff barriers (which would provide the greatest share of economic benefits), and streamlines customs procedures (which often are used to indirectly protect domestic firms). Those steps would encourage trade all around.

The U.S., which already has relatively low tariffs and non-tariff restrictions, would benefit from leveling the proverbial playing field. Cutting procedural trade barriers would reinforce the work of the WTO. Economist Jeffrey Sachs praised TPP for requiring "that regulations that limit trade should be based on evidence, not on political whims or hidden protectionism."

Provisions covering investor arbitration and intellectual property are a mixed bag. My Cato Institute colleague Simon Lester argued that "some are good, some are useless, and some are downright harmful." Many benefit U.S. concerns, but some new rules may trend toward the excessive and have been criticized for focusing on narrow interests. However, many complaints are misguided: some political activists criticize patents for limiting access to life-saving drugs, yet patents give firms an incentive to invest in the R&D necessary to develop the same life-saving drugs.

More dubious are measures setting labor and environmental standards, since they are difficult to enforce—even if poorer states pass legislation, they rarely enforce them. Moreover, such provisions, if enforced, tend to act as an indirect form of protectionism, making it harder for poor people in poor countries to compete with their wealthier neighbors. Which is why they are so popular with organized labor in America.

Predicting the consequences of such a complex agreement isn't easy. Advocates make competing claims and impacts are hard to measure. Almost always the effects are less than projected. It takes a lot to give a major boost (or hit) to America's $19 trillion economy.

In January the World Bank issued a report on the TPP. The Bank reported that earlier studies assessing figured a .8 to1.8 percent GDP increase for member states. The Bank's estimate was that the agreement would expand trade by 11 percent through 2030. GDP would rise an average of 1.1 percent for member states. Explained the Bank: "The benefits are likely to materialize slowly but should accelerate towards the end of the projection period." Although there would be few employment impacts, "participating advanced economy members are likely to experience a slight increase in skill premia while others benefit from a higher increase in the wages of unskilled workers."

Also in January, Economists Peter A. Petri and Michael G. Plummer of Brandeis and Johns Hopkins, respectively, figured TPP would result in a 9.1 percent increase in exports through 2030. The biggest jump would come in traded services, with manufacturing next, followed by agriculture and mining. Overall there would be a .5 percent GDP increase. Perhaps 54,000 jobs a year would be affected, both lost and added in the shifts resulting from trade adjustments in both export and import industries, and competing concerns. Despite this increased "job churn," the two economists wrote, "labor will get a somewhat more than proportionate share of the gains" compared to capital.

Trade impacts would be widespread. Most displaced workers would find alternative employment, but those "in specific locations, industries, or with skill shortages" might suffer. A good society seeks to help those adversely affected, but not by holding the entire economy hostage for a few. Explained Petri and Plummer: "Large or small, export and import effects reverberate through the economy and cause changes in sectoral value added and employment. These effects include indirect channels activated by the demand for intermediate goods for trade as well as demand for products and services stimulated by higher incomes under the TPP." Overall, Petri and Plummer argued: "The benefits of the TPP to the U.S. economy will greatly outweigh adjustment costs, and that economy wide price and employment consequences will be limited."

The U.S. would enjoy the largest benefits of any member, though total would be modest. Japan, Malaysia, and Vietnam also would enjoy a meaningful boost. Moreover, there would be "solid benefits for other members." This would provide a continuing incentive for other nations to join.

A Tufts University study criticized the Petri/Plummer analysis and estimated a .5 percent loss for America. In turn, however, Robert Lawrence of Harvard's John F. Kennedy School of Government defended Petri and Plummer. He contended that the original study relied on a model more appropriate to judge a trade agreement, more accurately assessed TPP, and developed more credible results. The Tufts analysis, he warned, based its estimated universal wage decline "on the authors' assumption rather than a response generated by their model." Indeed, the latter would suggest that increasing trade and capital barriers would raise employment "despite the loss of exports and curtailment of FDI inflows," a highly implausible result.

Trade occurs when both sides believe they benefit. Free trade encourages people and capital to shift to more productive industries wherever located. Past trade agreements have generally benefited participating countries. According to the World Bank, NAFTA hiked GDP by one to two percent of GDP. The European Single Market, long ago predecessor to the EU, added two to three percent of GDP.

These benefits are evident in the U.S. One study figured that exports accounted for about one-third of America's economic growth from 2009 through 2014. Almost twelve million jobs are directly attributable to exports. On average, these jobs pay as much as one-fifth more than other employment.

Moreover, Americans benefit from low-cost imports. Much of that advantage accrues to firms which in turn can produce more cheaply for both the domestic and foreign markets. But the greatest gains from less expensive products go to lower-income people.

A study by economists Pablo D. Fajgelbaum and Amit K. Khandelwal, of UCLA and Columbia, respectively, found "a pro-poor bias of trade." They explained: "On average, the real income loss from closing off trade is 63 percent at the 10th percentile of the income distribution and 28 percent for the 90th percentile." That is, protectionism is twice has harmful for those who have the least.

A study by economists Christian Broda and John Romalis, both of the University of Chicago, noted that "International trade with developing countries is an increasingly important source of inexpensive products sold to consumers." The lower prices have disproportionately advantaged those near the bottom of the income distribution. This fall in prices means that the effective "real income" of the poor actually has increased, counteracting much of the oft-cited increase in income inequality. Argued John Goodman of the Goodman Institute: "The biggest winners from free trade are in the bottom half of the income distribution. What's more, these gains are so large that if real income were measured properly, *inequality in the U.S. has been falling not rising—precisely because of increased trade*."

Ratifying TPP also would offer important political advantages. In the name of pivoting or rebalancing toward Asia, the U.S. is increasing its military commitments and deployments. This is a bad approach: regional territorial disputes mostly concern America's allies, not Washington, and are not worth war. Indeed, the only way to encourage allied states to do more for their own defense is for the U.S. to do less. Otherwise they will continue to free, or at least cheap, ride on America forever.

In contrast, stronger economic ties are in everyone's interest. Although China will continue to dominate trade in its own neighborhood, the U.S. still offers the most important marketplace for Beijing's neighbors. TPP will ensure that commerce continues to draw friendly states toward America. With China busy negotiating free trade agreements with a number of countries, Washington can ill afford to stand idle.

Even before Trump seemed headed toward the Republican Party presidential nomination, TPP's prospects were uncertain. It remains a priority for President Barack Obama, but both House and Senate GOP leaders doubt that the issue can be put to a vote before the election. Some of them pointed to previous agreements, such as that with South Korea, which took more than four years to ratify. But if left to a future administration—Donald Trump, Bernie Sanders, and even Hillary Clinton currently express their opposition—TPP might never be ratified.

Every day Congress refuses to liberalize trade is another day of losses for U.S. consumers and producers. Petri and Plummer figured that "Delaying the launch of the TPP by even one year would represent a $77 billion permanent loss, or opportunity cost, to the U.S. economy as well as create other risks. Postponing implementation will give up gains that compound overtime and defer or foreclose new opportunities for the United States in international negotiations."

America needs political leaders with the courage to act. They should make the case for free trade—that the benefits far exceed the costs, especially for those of lesser means. And that businessmen may better promote American influence than diplomats. TPP should be ratified before the fall presidential campaign, which likely will feature economic ignorance rivaling that exhibited by the Know-Nothings of the 1850s. Unfortunately, none of today's remaining presidential candidates appear prepared to lead America toward a better and more prosperous future.

Doug Bandow is a senior fellow at the Cato Institute, specializing in foreign policy and civil liberties. He worked as special assistant to President Ronald Reagan and editor of the political magazine Inquiry.