



## Three Cheers for Free Trade

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Donald Trump and his fellow liberals Hillary Clinton and Bernie Sanders are lambasting free trade as the scourge of the American working man. How odd it is that an economic activity so beneficial to almost every American, indeed to the vast majority of the human race, suffers such attacks with only half-hearted defenses raised by politicians who should know better and economists who do know better.

I stipulate: in trade, as in any economic endeavor, there are losers *in the short run*. Capitalism is, after all, fundamentally a system of creative destruction. But if there is any area of agreement among economists of all political stripes — a group among whom finding agreement is exceptionally difficult given their unique decision-making anatomy — it is that free trade provides large net benefits to the societies that engage in it, *even if other nations do not lower trade barriers to the same degree*.

Furthermore, the benefits of trade accrue in large measure to the lower economic echelons of society in an extension of Schumpeter's profound observation that "the capitalist achievement does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort."

Allow me to offer a few quotes (emphasis added) from one prominent economist, at the time a professor at an elite university, who was lamenting the poor understanding of international trade in the United States:

- "Most of what a student is likely to hear or read about international economics is nonsense."
- "International trade is not about competition, it is about mutually beneficial exchange."
- "**Imports, not exports, are the purpose of trade.** That is, what a country gains from trade is the ability to import things it wants. Exports are not an objective in and of themselves: the need to export is a burden that a country must bear because its import suppliers are crass enough to demand payment."
- "The level of employment is a macroeconomic issue, depending in the short run on aggregate demand and depending in the long run on the natural rate of unemployment, with microeconomic policies like tariffs having little net effect."

- **“Trade should be debated in terms of its impact on efficiency, not in terms of phony numbers about jobs created or lost.”**

So who is this paragon of capitalist dogma, this right-wing hater of the Rust Belt, this heartless fiend in the pocket of the Koch Brothers? Is it Steve Moore? Larry Kudlow? Ben Stein? Is it a deep-thinking conservative from the American Enterprise Institute or a Cato Institute libertarian?

No, these words are from a 1993 paper published by one Paul Krugman (H/T Don Boudreaux), at the time a professor in the economics department at MIT, who later won the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel (the official name of the world’s most famous non-athletic prize) for innovative explanations of free trade including that similar countries may trade with each other, including importing and exporting similar products, to satisfy consumer demand for a wider variety of products.

Again, although there is debate at the margins, the very large net benefit of free trade to a nation that engages in it is largely uncontroversial among economists, at least among honest ones — a group that sadly no longer includes Dr. Krugman. This includes the fact that free trade benefits the importing country even if the exporting country does not equally reciprocate with reduced tariffs. As the aforementioned Don Boudreaux puts it, just because the other guys are filling their ports with boulders doesn’t mean we should.

Yet here come Bernie Sanders, Hillary Clinton (not as committed an anti-trade radical but being pulled that way by Senator Sanders), and the faux conservative front-runner for the Republican nomination, Donald Trump.

Over the years, these and other spewers of economic nonsense have penetrated the collective American mind, leading to results in a recent survey — to be sure a survey with an obvious anti-trade bias but nevertheless showing dramatic trends — that demonstrate a growing support for protectionism. (I do wonder who has purchased the soul and editorial direction over the formerly rational Americans for Limited Government, which has recently become a shell for some unnamed anti-trade radical.)

Paul Krugman won’t stand up for the truth and even so-called supporters of free trade in the current political field, such as Ted Cruz, offer only half-hearted defenses of this beneficial activity. (I do credit Senator Cruz for correctly noting during a recent debate that Donald Trump’s proposed tariffs on imported goods will be paid for by American consumers, not foreign companies or governments, thus particularly harming the poor.)

Prominent voices in American politics and thought-leadership must take a stand and point out that not only are economic isolationists wrong in theory, they are also proven wrong by easily available data — making it all the more surprising that others are not taking up this important myth-busting on a daily basis.

Donald Trump has repeatedly called NAFTA, a free-trade treaty between Canada, Mexico, and the United States signed into law by President Clinton in 1993 and taking effect on January 1, 1994, a “disaster.” Bernie Sanders has used the same word. Hillary Clinton’s record on NAFTA

is mixed, with her mostly mild criticism due partly to not wanting to oppose her husband and partly to trying to stay in the good graces of corporate donors such as Donald Trump — who takes advantage of NAFTA to sell us his Mexico-made clothing line.

Each of them describes NAFTA as having destroyed manufacturing jobs in the United States. Yet it took me less than ten minutes to assemble the data to debunk this ridiculous claim.

I'll begin with a few questions:

- Since 1990, in what year did Michigan — the poster child for states being depopulated due to declines in manufacturing jobs — have its largest gain (both in absolute and percentage terms) in the number of people employed in manufacturing in the state?
- Since 1990, in what year did Ohio — another Rust Belt representative and a prominent part of the current political debate due to the presidential candidacy of Governor John Kasich — have its largest gain (both in absolute and percentage terms) in the number of people employed in manufacturing in the state?
- Since 1990, in what year did the United States of America have its largest gain (both in absolute and percentage terms) in the number of people employed in manufacturing nationwide?

Drum roll please...

The answer to all three questions is 1994, the first year of full implementation of NAFTA. In fact, during the last 25 years:

- 1994-1995 were the only two years of over 3 percent annual manufacturing employment gains in Michigan.
- 1994 was the only year of over 4 percent manufacturing employment gain in Ohio.
- 1994 was the only year of over 2 percent manufacturing employment gain nationwide.

Indeed, manufacturing employment did not drop below December 1993 levels in Ohio or nationwide until the recession of 2001, which saw GDP growth drop to 1 percent. Michigan was even more resilient: manufacturing employment there did not drop below pre-NAFTA levels until the worldwide economic meltdown of 2009, a year that saw GDP decline by nearly 3 percent.

So much for NAFTA the Destroyer.

Trade is complex and like all complex things politicians will dumb it down in a way that benefits them, generally by lying to the public and creating a frothy anger against those “damn furiners” instead of pointing fingers at the true culprits: unions, regulators, and politicians of all stripes whose spinelessness is surpassed only by their willingness to destroy competition and consumer

choice in order to curry favor with deep-pocketed firms and your friendly neighborhood lobbyists (who used to sit next to them in Congress).

It is one thing to argue, since it is often true, that a specific company (or an American division of a company) or a certain set of workers is temporarily harmed by the effects of free trade. It's another thing entirely — and a very harmful thing at that — to argue that one of the most positive economic activities that humans are capable of engaging in, voluntary exchange, must be choked off and demonized.

That it works as a political strategy says a lot, and none of it good, about the political knowledge of the American public. That it is used as a political strategy says a lot, and none of it good, about the willingness of our current crop of presidential candidates to sacrifice the economic well-being of 300 million Americans, most particularly the poor, in order to scare a few more votes their way.

Even Paul Krugman knows I'm right.