Newsmax

Trade Boosts Jobs Through Efficient Production

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Last week, Richard Trumka, president of the AFL-CIO, again came out against the pending trade agreements with South Korea, Colombia and Panama, claiming they would cost U.S. jobs. Yet every respectable economist, from Adam Smith way back in 1776 until the present, has argued the virtues of free trade.

Those in the Obama administration continue to waffle on these agreements by catering to the ignorance or deliberate know-nothing stance of their labor and other left-wing supporters. Many of the anti-free-trade types also argue for sourcing things locally. Does any of this make sense?

Should we have protective tariffs on pencils? As simple as a pencil is, it contains materials from all over the world (special woods, paint, graphite, metal for the band and rubber for the eraser) and requires specialized machinery. How much would it cost you to make your own pencils or even grow your own food?

Trade means lower costs and better products, and the more of it the better.

Adam Smith explained that trade, by increasing the size of the market for any good or service, allows the efficiencies of mass production, thus lowering the cost and the ultimate price to consumers. The economist David Ricardo in 1817, building on Smith's work, popularized the understanding of the concept of "comparative advantage," which shows that trade is beneficial, even when one person or country can produce everything less expensively.

For instance, if the United States can produce beer and wine with less labor than England can, it still makes sense to trade if the relative costs of producing the two goods are different in the two countries.

In England, it is very difficult to produce wine and only moderately difficult to produce beer, while in the U.S. both are easy to produce. Therefore, while it is cheaper to produce beer in the United States than in England, it is cheaper still for the U.S. to produce excess wine and trade that for English beer.

Conversely, England benefits from this trade because its cost for producing beer has not changed but it can now buy wine at a lower price. The conclusion drawn is that each country can gain by specializing in the good in which it has comparative advantage and trading that good for the other.

It is easy to see the loss of 200 jobs in a U.S. textile mill that produces men's T-shirts, but it is not as obvious to see the benefit from the fact that everyone can buy T-shirts for $2 less when they come from China, even though the cotton in the shirts was most likely grown in the United States.

Real U.S. disposable income is increased when we spend less to buy foreign-made products because we are spending less to get more — and that increase in real income means that U.S. consumers can spend much more on U.S.-made computer equipment, air travel or whatever.

A loss of 200 jobs in one industry can easily translate to the imperceptible gain of 2,000 jobs in 100 other domestic industries as a result of the cost reductions from free trade.

European and Japanese automobile companies make many of their cars in the United States, and they often have as much U.S. content as cars made by Ford or General Motors.

U.S. automobile companies have plants in Europe and China. Tariffs or other restrictions on the global production and sale of automobiles would mean higher prices, fewer choices for consumers and fewer workers in the global automobile industry, including fewer U.S. workers.

It is possible to grow high-cost and inferior coffee in South Florida and not buy it from Colombia. A free-trade agreement with Colombia means that nation will buy more U.S.-built Caterpillar tractors and wheat grown in the American Midwest and U.S. consumers will buy more Colombian coffee, fruit and textiles. The consumers in both countries will benefit from lower prices and better products, and more workers will be employed in each country, doing the things that they can each do best.

The benefits of trade are not always easy to see or quickly understand, and so it is no surprise that so many commentators, politicians, labor leaders, and others get it wrong. The president and his senior officials are not supposed to pander to ignorance, but should try to educate and dispel ignorance.

Fortunately, there are organizations like the Cato Institute (cato.org) with fine trade economists, who spend their time seeking to enlighten, as well as good academic economists, notably the indomitable and witty George Mason University professor Don Boudreaux, who almost every day sends out letters correcting the foolish statements of his fellow humans (see CafeHayek.com).

In sum, there is hardly ever a good argument against free trade, but if you hear one you cannot refute, go to the above sources to be enlightened. If free trade really causes most jobs to move to low-wage countries, why do countries such as Mexico and Bangladesh have huge unemployment rates and very high-wage places such as Virginia and Switzerland have almost full employment? Perhaps there is more to the free-trade argument than merely catering to ignorance.

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