THE HILL

Free Trade Under Siege

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"Free trade"— for some it is a boon, for others a boondoggle. Blessing or curse, it will retain a central role in political discussions and policymaking for the foreseeable future.

Irrefutably, the Golden Age of Neoliberalism (the mid-1980s through the 1990s) with its emphasis on market liberalization, deregulation, prudent fiscal and monetary policies, and a reduced role for the state is over and most likely never to return. An outward looking, market-oriented posture has given way to an inward-looking, hard-edged nationalist-populist-isolationist orientation.

In terms of trade policy, both political parties have tapped into a growing sense of frustration and anger among a significant portion of the electorate who believe they are increasingly worse off economically than in times past. These voters —disproportionately white, working class, rural and non-college educated — believe that the system is rigged and that Wall Street, big city, Ivy League-educated elites have stacked the deck against them. Ironically, many politicians who possess nearly all the traits these people loath, mobilize this demographic cohort masses and serve as the Pied Pipers of populism, a conceptually bankrupt ideology that fuels class resentment.

What does this mean for trade? For one thing, there is no mood in Congress or the public for more trade agreements — which is not a calamity, since the priority should be (and should have been from the beginning) to make the existing accords work fairly, efficiently and effectively. Secondly, for a politician to champion free trade now is akin to one playing Russian roulette with a cartridge in 5 of the 6 chambers.

For those of us who believe in free trade (providing it is in word and deed fair trade), it is paramount to attack head-on the myths, lies and distortions surrounding trade liberalization and educate the public at large to that effect.

The first place to start is the specious claim that trade agreements like NAFTA (reborn as the USMCA) are the reason for the majority of job losses. However, study after study has found that as high as 88 percent of these job losses is due to efficiency gains thanks to technology and process improvement, not from cheap imports from China and other developing nations. Organized labor (a mere 10 percent of the workforce) needs a scapegoat for its failure to modernize and boost productivity. That scapegoat is free trade agreements.

In searching for a solution for improved trade performance, we must recognize five facts:

Tariffs and other protectionist inanities are absolutely not the answer to improving trade balances. Former US Trade Representative Robert Lighthizer's proposed "universal baseline tariffs" of at least 10 percent on most foreign products will do nothing to improve American productivity; in fact, it will serve as a disincentive. The Tax Foundation estimates the cost to consumers of such a tariff at $300 billion a year. And if the aim is to limit imports from China, these tariffs could lead to a $1.6 trillion loss for the U.S. economy and three-quarters of a million fewer jobs over five years.

The argument that America is deindustrializing —"we don't make anything anymore" — is bogus. Productivity has made a quantum leap in less than a century with farm production having increased by a factor of five and coal mining output doubling with 80 percent fewer workers U.S. industry is now less labor-intensive and more productive, courtesy of technology. As noted in a study by Colin Grabow of the Cato Institute, the U.S. remains a manufacturing powerhouse with a larger share of output than Japan, Germany, and South Korea combined. What about our balance of trade? Almost all reporting of the U.S. trade balance reports merchandise trade, leaving out services — where the U.S. runs a surplus. Let us not forget that many imported products consist of American made components and licensed intellectual property that may be considered U.S. exports.

Education and workforce must be a priority. No nation can fully take advantage of free trade without a competent, well-trained and highly productive workforce. Here is where the American edifice has large cracks in the foundation. In international achievement scores in reading, math, and science, the U.S. fares poorly. A dumbing down of standards in public secondary education is resulting in a race to the bottom. The nation desperately needs greater investment and promotion in voc-tech education, apprenticeships, on the job training by both industry and labor. At the postsecondary level, longer education is not synonymous with higher education. Far too many public universities are heavily subsidized, over-staffed, inefficient and offer a bazaar of flakey majors such as gender studies, dance and photography.

States can be and should be in the vanguard of trade and investment liberalization. States more than the federal government have the power, authority, and resources to boost trade and investment. Sunbelt states in particular such as the Carolinas, Georgia, Virginia, and Texas aggressively promote inbound foreign investment and market their exports worldwide. For example, Arizona attracted a $12 billion investment from TSMC, the world's largest semiconductor manufacturer. South Carolina is a leader today in exports of biopharma products and aircraft parts and auto parts.

Smart industrial policy can play a major role. Industrial policy comes in two flavors — smart and dumb. The latter is illustrated by Solyndra under the Obama administration, a case study of incompetence, crony capitalism and wastefulness. Simply stated, it is foolish to think government can pick winners and losers. However, smart industrial policy, as embodied in the creation of DARPA, the bipartisan Chips and Science Act, and public-private competition in technology and science to challenge the industrial competition from China and other nations can assuredly further the public interest without the need for protectionist measures.

Anti-trade zealots misjudge the public. According to survey data from the Chicago Council on Global Affairs, international trade has enjoyed consistent bipartisan support from a majority of Americans for the last 20+ years, with three in four Americans stating that international trade is good for the U.S. economy.

The gains of free trade definitely exceed the losses. However, it is essential that the public be informed of the benefits of trade liberalization through relatable communication that includes concrete examples of trade benefits. At the end of the day, actions speak louder than words. Government support of sound pro-market policies, strong enforcement of trade rules (with heavy penalties for unfair practices), and private sector initiative above all (amazingly only 5 percent of U.S. firms export!) can produce the benefits that workers, communities and individual citizens seek and deserve.