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- [Home](#)
- [Articles](#)
- [Basics](#)
- [Conservative](#)
- [Liberal](#)
- [Libertarian](#)
- [Interviews](#)
- [About Us](#)
- [Contributors](#)
  - [Grau](#)
  - [McLoon](#)
  - [Murcia](#)
  - [Soluk](#)
  - [Wells](#)
  - [Write For New Polity](#)
- [Advertise](#)

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## Free Trade: A Chance at Bipartisan Stimulus

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President Obama and Congressional Leaders

The 2010 elections are over, the results are in, and the people have spoken. With Republicans gaining six seats in the U.S. Senate and a historic 63 seats in the House of Representatives, as well as six governorships and the majorities in a number of state legislatures, one can only conclude that Americans have rejected the failed Obama-Reid-Pelosi agenda. The question is where to go from here. It is clear that compromise will be key in this divided government.

Some Liberals believe their party was punished for insufficient Progressivism. I would respectfully remind them who won: Republicans, mostly Conservatives, many of whom were self-identified tea partiers. If the country was really pining for a return to the progressive glory days, then the most politically influential popular movement of our times would not have been filled with people demanding smaller government and fidelity to the Constitution, and sporting the occasional George Washington wig. All of this is not to mention that Conservatives, Moderates, and even most Liberals recognize that the Obama Administration and the Reid-Pelosi Congress have pushed for the most progressive policy agenda in a generation. So, while the far left laments its leaders' lackluster leftism, those of us who don't think it's time for the proletarians to unite will acknowledge that the country wants and needs a new direction, and focus on crafting policy compromises fundamentally based on a return to core American principles.

No issue illustrates the parties' differences better than economic stimulus. Republicans and Democrats can bridge the gap, however, by pursuing sound trade policy. Negotiating and ratifying free trade agreements (FTAs) will provide immediate and

measurable stimulus to our stagnant economy without blowing up our already-massive deficit.

Free trade means the elimination of protective tariffs, import quotas, and other barriers to the free exchange of goods and services across borders. There is widespread agreement among economists that free trade benefits economies and their participants. In fact, “ever since Adam Smith there has been virtual unanimity among economists, whatever their ideological position on other issues, that international free trade is in the best interests of trading countries and of the world”<sup>[1]</sup>, according to Nobel laureate economist Milton Friedman and his wife, economist Rose Friedman. First-year economics students are indeed taught the benefits of free trade; it is established fact that trade liberalization brings about prosperity. The Peterson Institute for International Economics found that “American real incomes are 9% higher than they would otherwise have been as a result of trade liberalizing efforts since the Second World War...that 9% represents \$1.3 trillion in additional American income”<sup>[2]</sup>.

Free trade agreements are bilateral or multilateral treaties intended to establish conditions of free trade between two or more nations. In layman’s terms, they remove taxes and regulations that act as obstacles to trade between buyers and sellers in different countries. The United States operates under several FTAs currently, with the International Trade Administration of the Department of Commerce finding that “free trade agreements (FTAs) have proved to be one of the best ways to open up foreign markets to U.S. exporters...although comprising 7.5 percent of global Gross Domestic Product (not including the United States), those FTA countries accounted for over 42 percent of U.S. exports”<sup>[3]</sup>.



FTAs don’t just benefit U.S. exporters, however. They also allow American businesses and individuals to find the best deals around the world for the goods they need, increasing economic efficiency across the board by lowering prices for producers and consumers, while at the same time increasing average wages by directing Americans into higher-paying jobs. In the words of Cato Institute Scholar James K. Glassman, “work is what we need to do in order to acquire things that enable us to live well. Free trade helps us get those things more cheaply because it allows many more producers to sell them to us—and because it frees us to concentrate on the work we do best”<sup>[4]</sup>.

To provide further evidence in support of theory, here are some statistics on current FTAs. When the U.S.-Australia FTA went into effect on January 1, 2005, “tariffs that averaged 4.3 percent were eliminated on more than 99 percent of the tariff lines for U.S. manufactured goods exports to Australia...the National Association of Manufacturers estimates that the manufacturing sector could sell \$2 billion more per year to Australia and that the U.S national income could grow by nearly half as much”<sup>[5]</sup>. Between March 1, 2006, and March 1, 2007, the U.S. entered into CAFTA-DR with Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua, and “U.S. exports to CAFTA-DR countries increased by 14.4% in 2007, following a 16.0% increase in 2006”<sup>[6]</sup>. The North American Free Trade Agreement (NAFTA), an agreement among the U.S., Canada, and Mexico, is perhaps the most important FTA currently in place. Since its implementation, “trade between the three countries has increased more than 200 percent”<sup>[7]</sup>. These stats translate into increased efficiency for the American economy and a proportional increase in our nation’s general prosperity. All figures are courtesy of the U.S. government.

President Obama supports free trade, making news recently by working on a U.S.-South Korea FTA during his trip to Asia<sup>[8]</sup>. Additionally, the President stated his intent to pursue stalled FTAs with Panama and Colombia as recently as early July<sup>[9]</sup>. Many other Democrats also support free trade, with Commerce Secretary Gary Locke calling trade liberalization a “nonpartisan issue” that both parties should pursue to foster economic growth<sup>[10]</sup>.

Most Republicans are also in favor of trade liberalization. 2008 Republican presidential nominee John McCain supports FTAs. Rep. Mike Pence, Congressman from Indiana, House Republican Conference chairman, and possible 2012 presidential candidate, expressed his unreserved support for free trade in a recent speech to the Detroit Economic Club<sup>[11]</sup>. And Rep. Kevin Brady, the top Republican on the House trade subcommittee, wants the GOP to pursue an “aggressive trade agenda”, as reported by the Associated Press. He is quoted in the same report as having said, “trade is an area in which Republicans and Democrats in the United States can and must work together”<sup>[12]</sup>.

It is clear that there is broad bipartisan support for sound trade policy, meaning that even if the parties can’t come together on issues of fiscal and/or monetary stimulus, they can and should move forward on trade to get the economy moving again. Several treaties present attractive opportunities for doing just that.

The first of these is the U.S-Colombia FTA, a comprehensive agreement negotiated under President Bush. If implemented, Colombia would immediately eliminate most of its tariffs on U.S. exports and phase out all remaining tariffs gradually[13]. Customs administration and trade facilitation in a number of areas would also be streamlined. The agreement has been signed by both parties and approved by Colombia's legislature, but concerns over legal standards applicable to American companies have prevented its enactment by the U.S. Congress. Still, the heavy lifting on this treaty is already done. The U.S. Trade Representative should work to resolve issues surrounding the Colombia FTA quickly. Once it does, Congress should immediately ratify the improved treaty.

Second, a South Korea FTA "would be the United States' most commercially significant free trade agreement in more than 16 years"[14]. Also negotiated and signed under President Bush, the KORUS FTA would eliminate 95% of tariffs between the U.S. and South Korea within three years of the date it enters into force, with most remaining tariffs being eliminated within 10 years. It would improve access to numerous markets. The tariff reductions alone could lead to a \$10-12 billion increase in U.S. Gross Domestic Product[15]. The Obama administration is actively pursuing KORUS, with Trade Rep. Ron Kirk and Korean Minister for Trade Kim Jong-hoon set to meet on November 30 and December 1 in an attempt to iron out a deal. If they are successful, Congress should act swiftly to implement the FTA.

Finally, the United States and Panama signed a trade promotion agreement on June 28, 2007. A comprehensive free trade agreement, it is similar in style to the Colombia FTA, opening up opportunities across the board for commerce between the nations. Outstanding issues include labor and tax policies, but once they are resolved, you guessed it: Congress should quickly approve the agreement.

The administration has given every indication it intends to roll up its sleeves and get these deals done. If it does, and if Congress enacts the treaties that result, it will be a huge step forward. However, these three FTAs are just a start, and America should continue to push for trade liberalization through FTAs and organizations like the World Trade Organization, until goods and services flow freely across all borders. Doing so will open up a world of opportunities to people everywhere, literally.

*\*Author's Note: The issue of trade is complex, and even this long article is not exhaustive. For more information on free trade, including responses to common objections, please visit the following links.*

#### **Milton Friedman on Free Trade:**

<http://www.hoover.org/publications/hoover-digest/article/7125>

#### **Cato Institute:**

<http://www.cato.org/trade-immigration>

[http://www.cato.org/pub\\_display.php?pub\\_id=10621](http://www.cato.org/pub_display.php?pub_id=10621)

[http://www.cato.org/pub\\_display.php?pub\\_id=11720](http://www.cato.org/pub_display.php?pub_id=11720)

#### **Govt. Links:**

<http://ustraderep.gov/>

<http://export.gov/>

*\*Sources for this article: Govt. and Newswire sources cited by web link only.*

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[1] Friedman, Milton and Rose D. Friedman. "The Case for Free Trade". *Hoover Digest* No. 4 (1997). Web. <http://www.hoover.org/publications/hoover-digest/article/7125>

[2] <http://www.ustr.gov/trade-topics/economy-trade>

[3] <http://trade.gov/fta/>

[4] Glassman, James K. "The Blessings of Free Trade." *The Cato Institute*. May 1, 1998. 29 Nov 2010 [http://www.cato.org/pub\\_display.php?pub\\_id=6815](http://www.cato.org/pub_display.php?pub_id=6815)