



Making Free Trade Sexy

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The president's lukewarm embrace of truly unfettered international trade leaves a lot to be desired.

In his [State of the Union address](#), the president told us he wants to craft a trade policy agenda fit for the 21st Century. If only!

A true free trade agenda should be the cornerstone of any "middle class economics" platform. Open international markets lower domestic prices for consumers, increase export opportunities for small and big business alike, and induce formerly-protected manufacturers to improve and compete on a global stage. But we shouldn't expect Obama to embrace the benefits of free trade just yet.

So far, Obama has only been "pro-trade" when it serves interests defined by business lobbies and other pro-export mercantilists. But when it comes to the pro-trade policies that benefit U.S. consumers by introducing entrenched U.S. exporters to more competition, the president consistently falls back on basic protectionist instincts.

It's not that Obama opposes *all* trade liberalization. His announcement that he would work to create a Trade Promotion Authority (TPA) was a high note of Tuesday's speech. The TPA would empower the executive branch to negotiate trade pacts with our foreign trading partners—thereby fast-tracking foreign open markets upon congressional approval.

But even this proposal is far less than ideal. The TPA could merely become a device to streamline special interest policies. As Cato Institute Director of Trade Policy Studies [Dan Ikenson](#) explained to me over email, "While free trade agreements have protectionism baked into them and are thus definitely not free trade, they tend to make us more economically free." A successful TPA would require strict discipline from Congress and the president to resist the strong pull of protectionist interests.

Flawed though it may be, the president's TPA proposal is still a clear departure from the last six years of passivity on trade policy issues. After all, strong hostility from his base and the Democratic leadership toward trade makes change quite politically costly.

The President did begrudgingly lend support to completed agreements with South Korea, Colombia, and Panama after the GOP took control of the House in 2011—but, as Ikenson noted, even this was more “out of necessity than conviction.”

That was true on Tuesday, too. His sole lukewarm justification provided for a TPA was that it would benefit American companies to sell their goods and services beyond our borders. “Ninety-five percent of the world’s customers live outside our borders, and we can’t close ourselves off from those opportunities,” said the president. What a snoozer. If the president harbored a true and unimpeded understanding of the true benefits of trade liberalization, he’d make a much sexier pitch.

Increasing exports is only one of the many benefits of expanding trade. Imports are in many ways more beneficial for middle class growth. The more imports, the better, as it leads to greater consumer choices and varieties at lower prices.

As George Mason University economist Donald Boudreaux points out ([PDF](#)), “Prices are held down by more than two percent for every one-percent share in the market by imports from low-income countries like China.” Fearing cheaper imports from China, as the president does, is not a part of any middle class platform grounded in good economics. We should welcome lower prices!

Consumers aren’t the only beneficiaries of expanded trade. U.S. manufactures within our borders benefit from lower input good prices. At least half of U.S. imports are not consumer goods; they are inputs for US-based producers, according to Boudreaux.

Freeing trade reduces imported-input costs, thus reducing businesses’ production costs and promoting employment possibilities and economic growth. We should welcome U.S. business and employment growth!

Free trade also benefits the U.S. in incredibly effective ways that are harder to see. Opening trade barriers improves efficiency and innovation. It shifts workers and resources to more productive uses and allows more efficient industries to prosper. Over time, Boudreaux explains “higher wages, investment in such things as infrastructure, and a more dynamic economy that continues to create new jobs and opportunities”. Free trade also drives competitiveness which fuels long-term growth, higher quality of good and services—and still lower prices.

President Obama should be singing these praises of free trade from the rooftops, but instead he mumbles of its necessity like he’s feeding us mashed broccoli.

This is not a partisan issue. Economists of all ideological backgrounds agree that the net effect of free trade is positive and endures even if other countries continue in their protectionist ways. It will surprise no one that [Milton Friedman](#) was a fervent advocate of tearing down all protectionist policies. But did you know he is rivaled in this by none other than [Paul Krugman](#)? In a seminal *Journal of Economic Literature* article in 1997, Krugman wrote “[the case for free-trade is essentially a unilateral case.](#)”

The president doesn’t quite see it. His talk about the need for “fair” trade and for “leveling the playing field” is a strong signal that he intends to tilt the playing field in the home market against

consumers and in favor of politically connected producers. Just look at his new and unfortunate support for the protectionist Export-Import Bank.

Politicians reveal their prioritization of entrenched exporters over average consumers and businesses in their irrational hysteria over China and other governments subsidizing their countries' exports. Supporters of export credit subsidies claim that they are "leveling the playing field" against foreign competition, but basic economics says otherwise.

In fact, countries that receive the artificially cheap imports benefit far more than the protectionist country: recipient countries get more output for less input, and more imports for fewer exports. Let me make that clear: U.S. consumers of subsidized imports benefit by getting cheap goods at the cost of foreign taxpayers. That's the closest thing to a "free lunch" in economics as you'll ever find.

Do U.S. companies welcome this competition? For the most part, yes. But not always. Either way, politicians should never give into protectionist instincts to shelter U.S. companies, lest we end up doing more damage to our prosperity in the process.

Obama's turn toward trade liberalization is both a good start and a missed opportunity. There is no need to give in to the pressures and fears of business lobbyists. The president should take a page out of Bill Clinton's book and embrace free trade for all that it is. When you free markets, you free people to buy whatever goods and services he or she wishes irrespective of geographical location. And that is a freedom that ultimately benefits everyone.