Hey Washington, don't close the door on free trade

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It seems that every time a major recession hits, the American people turn away from trade and toward protectionism, a strategy which has been tried before and never worked. It's failed because free trade is a cornerstone of economics and fundamental to an increasingly globalized world. Unfortunately the American public, reacting emotionally to fears of "jobs being shipped overseas," especially in the midst of a recession, has turned on free trade.

The Wall Street Journal reported last week that in a recent poll, 53 percent of Americans think that free-trade agreements have weakened the U.S., which is "up from 46 percent three years ago and 32 percent in 1999." This is a striking turnaround from the 1990's, when the historic NAFTA pact was signed and the public rallied behind the need for free trade.

The increase in outsourcing and reluctance to invest in the U.S. due to the heavy costs of doing business has largely driven this decline in popularity. 83 percent of blue-collar workers, The Journal fdpofgx, have concluded that outsourcing to lower-cost countries has driven the U.S. economy further into the ground. But the foul cries against free trade are misguided and could, if abused by politicians, dig ourselves into an even deeper hole economically.

The case for free trade goes to the core economic law of comparative advantage. This concept states that in order to make the most use of its resources, a country must focus on producing a particular good or service for which it would have a lower "opportunity cost" than another country-meaning that it can more efficiently produce the given product or service than it could any other given the same resources. Thus, countries focus on producing what they're best at given limited resources. There is a mutually beneficial exchange that then takes place when one nation trades with another and both trading partners benefit.

The Cato Institute's Daniel Ikenson has noted that trade is "increasingly the process of importing a good, adding value to it and then exporting it to another producer further down the production chain. These complicated production and supply chains rely upon the rapid flow of goods and services across borders." Hence we have what is called "global sourcing," or "global production chains," which is the result of free trade and comparative advantage.

Thanks to global sourcing, we are able to shop at Wal-Mart for all sorts of cheap products to buy-goods which would be much more expensive if we didn't have open trade policies. Indeed, without free and open trade, void of tariffs (taxes on imports) and other barriers to entry, the importation of essential components along the international production chain would be stifled. Moreover, the costs of multinational corporations to do business would rise, resulting in higher prices for consumers, lower wages for workers, fewer benefits for employees and/or other such cutbacks.

It has taken some time for an increasingly globalized world to reduce tariff as well as non-tariff trade barriers. To go backwards on decades of work would be counterproductive, especially in a day and age when global production chains are so critical to the U.S. economy. Since production has become an increasingly international phenomenon, the importance of free trade cannot be overstated.

Because of international competition, companies at home are forced to keep their prices down, lest their competitors swoop into American markets and sell their products at lower prices, beating out the American competition. Hence stores like Wal-Mart. Plus, international competition spurs innovation: if you're a multinational corporation, you're going to want to develop new, appealing products or provide existing goods at lower prices.

While many think that free trade diminishes job creation, the Center for Trade Policy Studies's James Glassman notes that the livelihoods of just 40 million Americans depend on exports, whereas every American benefits from imports. Indeed, the U.S. economy is not export-driven; many more Americans benefit from bringing goods here than from exportation because we are primarily a service-based economy.

The Heritage Foundation's Dr. Ed Feulner notes that since barriers to trade "allocate resources inefficiently" and "raise prices for every consumer" due to the "hidden tax" behind them, economic growth and job creation are stifled; in fact, in the year 2001, "hidden import taxes cost American consumers $18 billion." Ikenson observes that if all barriers to trade were eliminated, the U.S. would undergo at least $95 billion in increased economic growth. How's that for an economic stimulus package?

As we see the return of protectionist sentiment in America, we must not allow ourselves to get caught up in the hype. These protectionist measures can, and do, wage significant damage upon the people within whatever country is implementing such policies. In a sort-of self-fulfilling prophecy, this makes it more difficult to obtain the very needs or wants that these protectionist measures are designed to fulfill.

Protectionism forces a rise in costs for businesses and prices for consumers, resulting in an overall disadvantage when it comes to fulfilling domestic wants and needs. If we wish to see the American economy pull out strong from the current recession, we should remove the restraints on international trade, not slap more chains on the free-flow of goods from place to place.

For the sake of our economic future, we must not close the door on free trade.
