



## Don't Fear the Free Trade Boogeyman

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Are you having trouble falling asleep because of a ghostly nightmare? Donald Trump, along with a wide range of pundits and investors have been afraid of globalization and the free trade boogeyman. Donald Trump may or may not win the presidential election, but regardless, his inflammatory rhetoric regarding trade is way off base.

Free trade has been demonized as a job destroyer, however history paints a different picture. I have written on the subject before (see also *Invisible Benefits of Free Trade*), but with Americans digesting the current debates and the election only a month away, let me make a couple of key points.

**Standard of Living Benefits:** For centuries, the advantages of free trade and globalization have lifted the standards of living for billions of people. There is a reason the World Trade Organization (WTO) has united more than 160 countries without one country exiting since the global trade group began in 1948. Trade did not suddenly stop working when the Donald began lashing out against NAFTA, TPP and Oreo cookies. Trump rails against trade despite Trump ties being made in China.

Job losses are easy to identify (like the Oreo jobs moved to Mexico from Chicago), but most trade benefits are often invisible to the untrained eye. As Dan Ikenson of the Cato Institute explains, if low-wage labor was not used offshore to manufacture products sold to Americans, many amazing and spectacular products and services would become unaffordable for the U.S. mass markets. Thanks to cheaper foreign imports, not only can a wider population buy iPhones and use services like Uber and Airbnb, but consumers will have extra discretionary income resources that can be redeployed into savings. Alternatively, the extra savings could be spent on other goods and services to help spur U.S. economic growth in various sectors of our nation.

It doesn't make for a nice, quick political soundbite, but Ikenson highlights,

“The benefits of trade come from imports, which deliver more competition, greater variety, lower prices, better quality, and new incentives for innovation.”

**Strong Companies Hire and Grow:** Plain and simply, profitable businesses hire employees, and money-losing companies fire employees. Business success boils down to competitiveness. If your product is not better and/or cheaper than competitors, then you will lose money and be forced into stagnation, or worse, be forced to fire employees or shut down your business. Free trade affords businesses the opportunity to improve the cost or quality of a product. Take Apple Inc. (AAPL) for example, the company's ability to build a global supply chain has allowed the company to offer products and services to more than 1 billion users. If Apple was forced to

manufacture exclusively in the U.S., the company's sales and profits would be lower, and so too would the number of U.S. Apple employees.

Fortunately, no matter who gets elected president, if the rhetoric against free trade reaches a feverish pitch, investors can rest assured that the president's powers to implement widespread tariffs and rip up longstanding trade deals is limited. He/she will still be forced to follow the authority of Congress, which still controls the nuts and bolts of our economy's trade policies. In other words, there is nothing to fear...even not the free trade boogeyman.