



Sorry, but this USMCA trade deal is a pile of hot garbage

Brad Polumbo

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If you want the United States to get richer, our economy to become more efficient, and jobs to proliferate across borders, you should support expanding international free trade with our neighbors, Canada and Mexico. This means you should *not* support the new United States-Mexico-Canada Agreement just passed by the House of Representatives. The hodgepodge of new trade restrictions and updates to trade policies is commonly known as the USMCA.

The USMCA trade deal was negotiated by the Trump administration as a replacement for the 1994 deal known as NAFTA, which eliminated tariffs, taxes on imports, for most products between the U.S., Mexico, and Canada. The USMCA is a purported “upgrade” to NAFTA, and it mostly preserves the underlying zero-tariff framework. But many of the changes it does make are anti-trade, making its net value not an improvement from the current NAFTA status quo.

One needs to understand why free trade is a good thing in the first place. It’s one of the rare issues where economists, liberal and conservative alike, pretty much all agree: Free trade is a net positive for all involved and makes the world richer.

This is because of an economic principle known as “comparative advantage.” It’s jargon that essentially means that unfettered trade allows all countries to focus their production on the industries where they are relatively more efficient. The net result is a more efficient economy for all, resulting in lower prices, increased employment, and renewed prosperity.

In his seminal work *Basic Economics*, the famed economist Thomas Sowell excoriated restrictions on trade, writing that “free trade provides economic benefits to all countries simultaneously, so trade restrictions reduce the efficiency of all countries simultaneously, lowering standards of living, without producing the increased employment that was hoped for.”

This is why the USMCA is hot garbage: It would do more to restrict trade than liberalize it on balance, thus causing the kind of decline in efficiency and quality of life Sowell predicted.

Of course, the USMCA is a vastly superior alternative to what President Trump has long advocated, a complete pullout of NAFTA. Preserving the underlying absence of tariffs between markets in the U.S., Mexico, and Canada is of essential importance, and doing so, as the USMCA does at the cost of added restrictions, is better than not doing so at all.

And the USMCA does have some redeeming qualities.

For instance, it frees up access to Canadian dairy markets for U.S. companies, as right now, the market is largely closed off to American suppliers. It also makes it easier for the U.S. to invest in

Mexico's energy industry and modernizes NAFTA, which was passed before the internet became prevalent, to also limit protectionism in e-commerce.

But there's much more bad news for free trade than good in this deal.

For instance, it discourages participating countries from negotiating free trade deals with nonmarket economies, such as China. And in what's likely the most substantial anti-trade provision of the USMCA, the deal introduces a whole host of new restrictions on the auto industry, making it much more costly for auto manufacturers to export cars duty-free among the three neighboring countries.

This means the preservation of economic inefficiency, and most importantly, higher prices for you and me. Writing for the *Washington Examiner*, the Adam Smith Institute's Tim Worstall concludes, "the bite comes out of the wallet of every American who buys a car."

Likewise, there are a bunch of labor-related and environmental restrictions added to the agreement. It also has a six-year sunset clause, meaning that it would need to be reauthorized by all three countries just half a decade from now. This does little to ease the uncertainty of the business community, thus stifling international investment.

In sum, the libertarian-leaning Cato Institute's trade expert Dan Ikenson told me that "This deal is a net negative for free trade because it changes NAFTA in a way that introduces additional impediments to free trade. This is an agreement that discourages investment in Mexico and trade between the countries."

The new restrictions in the USMCA make it a net loser for trade, but we should have known this from the get-go: The deal has support from labor unions, nationalist Republicans, and Democratic politicians alike. This led Ikenson to dub the USMCA the "protectionist love child of the labor Left and the nationalist Right." It's little wonder such toxic parents produced an ugly baby.