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Free trade abroad depends on free trade at home

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Donald Trump and Bernie Sanders have gotten a lot of political mileage out of bashing international trade as a supposed destroyer of American jobs to the benefit of firms overseas. Rarely do the speeches go beyond the visceral level, partly because the issue is complicated, but mostly because the charge is not true.

It is no accident that both Republicans and Democrats have favored what is called free trade, meaning trade between nations with as little cost as possible, based on the idea that it tends to make good neighbors and benefits nations with otherwise surplus goods to find additional customers. But for our present purposes, the main advantage of international trade to the United States is that it contributes to the prosperity of our producers and consumers.

The best article I have seen on this subject was published in National Review this month by one Scott Lincicome, an international trade attorney affiliated with the Cato Institute. He makes four main points: 1) free international trade is beneficial; 2) adjustment to changing job markets is needlessly difficult; 3) many government policies discourage market dynamism; and 4) changing those policies would stimulate job markets.

While recent studies indicate Chinese imports may have lowered wages and labor force participation, other studies find “no evidence that imports are the primary driver of U.S. manufacturing-job losses, or that the U.S. manufacturing sector actually is in decline.” Indeed, the U.S. has steadily been shedding those jobs, long before the North American Free Trade Agreement, which has added millions more.

In any case, the U.S. is the world’s second-largest manufacturer, the third largest exporter and the top destination for foreign direct investment, most notably foreign-owned automobile plants in southern states. The gains in productivity mean not only jobs but also more affordable products for American consumers, particularly low and middle income Americans who shop at “big box” stores.

No less important, reciprocal trade agreements open foreign markets to American firms. According to the Business Roundtable, “in 2014, U.S. free-trade (NAFTA) partners purchased 13 times more goods per capita from the United States than non-FTA countries did.”

The downside of protective tariffs is that they “force American families and businesses to subsidize — through hidden, regressive taxes — the small share of U.S. manufacturers and workers ... that compete directly with” foreign importers." A recent example is the 35 percent tariff on Chinese tires in 2009 that saved union jobs at a cost of $900,000 each.

More to the point, the U.S. is deeply involved in world trade in which so-called “value chains” play a major part, meaning foreign imports from China and Mexico contain major inputs from this country. Killing off those imports would kill American jobs.

A major concern regarding foreign trade is the dislocations it causes for American workers. When industries relocate or disband, whether it is because of foreign or domestic competition, common sense dictates that workers take advantage of new job opportunities in other regions or industries. In America’s dynamic commerce, we need to go where the jobs are, not where we would like them to be.

Of course, older workers are less likely to relocate than younger workers, but the problem is exacerbated by government policies that discourage saving for hard times by keeping bank interest rates low or by taxing interest earnings heavily. Add to this the ever-rising government-subsidized cost of health care, child care and education, and the negative impact on job mobility becomes even more evident.

There are other problems. The federal tax code encourages job training in one’s own field, but not for transferring to another. Minimum wage laws drive the cost of labor up, and large firms are better at keeping up with this cost and for providing health insurance than smaller, typically more competitive, ones.

Trade Adjustment Assistance is expensive and discourages worker movement to better-paying jobs. And the federal government maintains dozens of job-training programs in nine agencies which are not subject to rigorous evaluation and accountability. Meanwhile, private job-training programs have practically disappeared.

If that isn’t enough, the Social Security Disability Insurance System has encouraged millions of able-bodied workers to go on the government dole, while numerous extensions of unemployment insurance have delayed workers’ return to the labor market.

Thus, not free trade but “multiple government policy failures and a resulting collapse of labor dynamism,” according to Lincicome, have contributed to unemployment and underemployment. Changing job-training requirements, encouraging savings and more market competition, and reducing government regulation would do more to stimulate economic growth than taxing foreign-made goods out of U.S. markets.

In short, we should add to, not subtract from, commerce here and abroad. Self-sufficiency comes from encouraging American enterprise, not keeping foreigners out.