

# NATIONAL REVIEW

## The Case for Free Trade

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The policy of free trade — citizens freely buying and selling goods and services across borders without government interference — is under greater attack today than it has been in decades. Despite the fact that American public support for trade and globalization is at an all-time high, politicians, pundits, and a growing cadre of wonks on both the left and the right have become increasingly hostile to the long-standing U.S. political consensus in favor of multilateral trade liberalization. This hostility, however, is mostly misguided. Although it contains certain nuggets of truth about, for example, Chinese mercantilism or onerous trade-agreement rules, the case for free trade — economic, geopolitical, and, perhaps most of all, moral — is as strong today as it was when Adam Smith wrote *The Wealth of Nations* almost 250 years ago.

Trade and globalization have provided undeniable economic benefits for the vast majority of American families, businesses, and workers. Most obvious are the consumer gains. Several recent studies have found that freer trade with China, for example, has generated, through increased competition and lower prices, hundreds of billions of dollars in U.S. consumer benefits — benefits that, according to economists Xavier Jaravel and Erick Sager, are the equivalent of giving every American “\$260 of extra spending per year for the rest of their lives.” Consumer gains from imports, in general tilted toward the poor and the middle class, are especially tilted toward them when it comes to goods that are made in China and sold at stores like Walmart. The magnitude of such benefits also debunks the well-worn myth that free trade is mainly about cheap T-shirts. Indeed, trade’s consumer surplus is a big reason that Americans today work far fewer hours to own far better essentials than at any prior time in U.S. history.

Then there are trade’s overall benefits for the economy. A 2017 Peterson Institute paper calculated the payoff to the United States from expanded trade between 1950 and 2016 to be \$2.1 trillion, increasing U.S. GDP per capita and per household by around \$7,000 and \$18,000 — with benefits, again, disproportionately accruing to households in the bottom income decile. The U.S. International Trade Commission, moreover, found in 2016 that U.S. bilateral and regional trade agreements such as NAFTA generated small but significant annual increases in GDP, as well as in employment and real wages among highly skilled and less skilled American workers. As the American Enterprise Institute’s Michael Strain has noted, trade-skeptical populists who downplay this impressive macroeconomic boost ignore that, as our current economic moment attests, a small bit of extra GDP growth can mean big things for lower-wage, lower-skill workers in terms of employment and possible government assistance.

Trade and globalization also support American companies and workers, even in manufacturing. The Commerce Department, for example, has estimated that almost 11 million jobs depended on exports of U.S. goods and services in 2016, and foreign direct investment in the United States — the necessary flip side of our oft-maligned trade deficit — supported millions more. Meanwhile, American companies that adapt and thrive in today’s economy most often do so by making use of imports and global supply chains. The San Francisco Fed, for instance, recently estimated that almost half of U.S. imports are intermediate products purchased by American manufacturers to make globally competitive finished goods; the country’s biggest exporters, therefore, are also its biggest importers. Numerous other studies have found that the vast majority of the value of an American company’s assembled-abroad product (such as an iPhone, assembled in China) accrues to the U.S. company, including its workers and shareholders — not to the place of final assembly (despite what a gross bilateral trade balance, which attributes an import’s full cost to its final export source, might say).

These supply chains not only deliver modern marvels at amazing prices but also allow American companies and workers to focus on our high-value comparative advantages, such as professional services and advanced manufacturing, and leave the lower-value stuff to other countries and workers who lack such skills. Imports, the San Francisco Fed study found, also support millions of other American jobs in transportation, logistics, and wholesale and retail trade — indeed, almost half of all U.S. consumption dollars spent on items not “made in the USA” go to these Americans, not to foreigners.

Finally, there are the immense, unseen benefits of import competition on American economic dynamism (a market’s rate of change and innovation) and living standards. “When we find ways to get more from less, that means more resources available to expand opportunities elsewhere in the economy,” George Mason’s Russ Roberts recently noted. “That expansion is unseen. . . . But it’s hugely important.” Whether this creative destruction comes from trade or technology is irrelevant: The outcome is not just cheaper stuff but better (and once unimaginable) stuff, better jobs, better companies, and better lives. And it can occur only by letting consumers and their capital seek more-productive ends.

This is why the alternative to freer trade, taken to its extreme, is not \$2,000 iPhones; it’s no iPhones at all.

Protectionism, meanwhile, has repeatedly proven a costly failure. When researchers at the International Monetary Fund recently examined tariff increases in 151 different countries between 1963 and 2014, they found that correlated with such policies were significant declines in domestic output and productivity, more unemployment, and higher inequality. The United States is not immune to these harmful forces: Two new studies, from economists with the National Bureau of Economic Research, have found that the economic pain from Trump’s 2018 tariffs fell entirely on American consumers (companies and individuals). My 2017 survey of the academic literature on over a century of U.S. protectionism pre-Trump showed that, with very few exceptions, it imposed immense economic costs on American consumers, workers, and companies (more than \$600,000 per year for every U.S. job created) while also failing to open foreign markets or resuscitate protected American firms and workers over the longer term. In case after case, the jobs still disappeared, and the companies either went bankrupt or came back to the government for more help. And it’s happening again: Though American steel consumers are paying much higher prices than their global competitors, U.S. steel-industry stocks lag far

behind the S&P 500 index. For these and related reasons, economists of the Left, Right, and center continue to oppose tariffs overwhelmingly (93 percent of a recent IGM Economic Experts Panel of dozens of top economists, to be exact), and they support freer trade and globalization.

In addition to generating economic benefits, trade has also long been a pillar of national and global security. As the Brookings Institution's Robert Kagan noted in a *Washington Post* op-ed in 2018, the multilateral trading system arose not from a desire for global economic growth or to empower global consumers but from a fear of another global war. And this system, for all its fits and starts, met that aim reasonably well for more than seven decades. Since the end of World War II, Kagan wrote, the global trading system helped prevent "the slightest danger that economic competition would spill over into geopolitical competition" — "one of the great historical anomalies" of our time. The World Trade Organization has provided an impressively effective venue for the resolution of bilateral trade disputes as well as a key way — primarily through the accession process and its numerous obligations — for developing countries to undertake painful internal reforms as the "price" of joining the WTO, reforms that otherwise might have been too politically difficult. (Even China undertook such reforms, and its post-accession backsliding is far more a failure of WTO members' enforcement than of the accession commitments themselves.) The WTO system certainly isn't perfect, but it's still far preferable to the piecemeal system of power politics, uncertainty, and outright war that preceded it. Indeed, the United States' recent shift back toward this old system of bilateral deals and unilateral enforcement is already causing anxiety around the world, even for some of our closest allies, such as Japan and the U.K.

Finally, removing U.S. restrictions on Americans' consumption of foreign goods, services, and capital is not merely an economic and geopolitical decision but also a moral one. Whether intended or not, trade liberalization has removed stark inequities in the previous, protectionist U.S. system — inequities that typically originated in a proverbial smoke-filled room full of lobbyists and elite policymakers. Protectionism invisibly propped up certain industries and workers at most Americans' expense and generated the aforementioned economic and geopolitical problems.

Indeed, we are witnessing again today just how protectionism breeds elite cronyism and political dysfunction and hurts far more Americans than it helps. Former "big steel" lawyers and executives, now in the Trump administration, dole out tariff protection to their former colleagues who lobbied for it; those well-connected colleagues, in turn, get to decide the fate of their American customers' requests for steel-tariff relief, even though the steel-consuming customers are a far larger share of the U.S. economy and work force than is the steel industry. And that's just the steel tariffs. Is it any wonder that trade-related lobbying expenditures over the past two years have skyrocketed? Those on the left who aim to "get money out of politics" and those on the right who talk of "draining the swamp" reveal the weakness of such commitments when they turn a blind eye to the corruption directly resulting from the protectionist policies they support.

Why should certain American industries and workers have a moral claim to government protection? Why should government prioritize those workers' living standards above their fellow citizens'? American footwear workers, for example, have long benefited from a government policy dating back to the Smoot-Hawley Tariff Act of 1930 that protects their jobs through hidden restrictions on the commerce of other Americans — restrictions that force everyone, including the poor, to subsidize footwear jobs by paying more for their shoes. Perhaps, if the

taxes were repealed and Americans could buy shoes from whomever they wished, the nation would owe affected workers welfare or job training. But the workers are not owed the protection itself, and its removal is not an immoral act. It is the right thing to do, and the broader economic and geopolitical gains are just gravy.

The morality of trade does not stop at the water's edge, either: The lowering of U.S. trade barriers, along with American leadership in creating agreements and institutions such as the WTO, has produced immeasurable benefits for the world's poorest people. As the World Bank noted in its *Report on the Role of Trade in Ending Poverty*, since 1990, "a dramatic increase in developing-country participation in trade has coincided with an equally sharp decline in extreme poverty worldwide," and the number of people living in extreme poverty has collapsed. Trade has also "helped increase the number and quality of jobs in developing countries, stimulated economic growth, and driven productivity increases."

A new report from the International Labor Organization provides jaw-dropping stats in this regard: Between 1993 and 2018, the share of individuals in low- and middle-income countries working in extreme poverty fell from almost 42 percent to less than 10 percent — a decline of around 600 million people. Most moved from subsistence farming to formal wage or salary work, providing themselves with first-time access to health care and other benefits. And, contrary to popular belief, the job creation in developing countries did not happen primarily in "sweatshop" manufacturing: The share of industrial workers in low- and middle-income countries almost did not change between 1991 and 2018, with job growth instead coming from sectors such as construction and retail trade; between 1999 and 2017, inflation-adjusted real wages in these countries tripled. Child labor is also disappearing: The overall number of child workers (ages five to 17) decreased by approximately 94 million between 2000 and 2016 (from 246 million to 152 million) and is projected to decline by tens of millions more by 2025. These improvements have been especially strong among women and girls, who in many countries faced truly horrible social conditions (hunger, arranged marriages, etc.) before these new jobs existed.

Trade liberalization contributes to all of this.

Free trade is certainly not costless, and experts have surely miscalculated projected trade flows and their effects on certain labor markets. But the problems that some Americans face as a result of free trade do not outweigh its tremendous overall benefits for the country and the world. And the downsides of free trade cannot obscure either its fundamental morality or the proven pain and inefficacy of the lone alternative, protectionism. They also cannot change the fact that much of today's globalization is driven not by "trade deals" or other top-down policy choices but by seismic technological shifts, such as the Internet and shipping containers; that the post-war world, of which large portions were recovering from war or descending into Communism, was a unique situation for American manufacturing workers; that, historically, technology has been responsible for eliminating most low- and middle-skill manufacturing jobs in America, and that it would eventually have consumed the others, too; and, finally, that the problems of small towns in "flyover" country may be, as Tim Carney documents in his new book *Alienated America*, due more to the collapse of cultural institutions such as marriage, church, and civic life than to any economic forces.

These challenges are some of the hardest of our time, and the solutions are neither clear nor easy. But a rejection of freer trade and an embrace of protectionism would only make things worse.

*The views expressed in this essay are Scott Lincicome's own and do not necessarily reflect those of his employers.*

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