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What The Candidates Should Be Saying About Trade And The Economy

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This interminable presidential campaign has produced more nonsense regarding international trade than Americans have heard in years. Rather than dissecting and rebutting the protectionist statements of candidates Donald Trump and Hillary Clinton, a more elucidating approach may be to step back and contemplate what a thoughtful candidate might say. Someone who understands economics and the importance of individual liberty would take a decidedly different approach.

Such a candidate might begin by pointing out how fortunate we are to live in a country that for the past 240 years generally has governed itself fairly well. People have been free to seek opportunity and to work in their own self-interest. They have done so with enthusiasm, thus causing the United States to grow from its modest colonial beginnings to become what is now the largest economy in the world. America accounts for 25% of global economic activity, far more than China's 15%.

To foster future growth, the U.S. must preserve the freedom of individuals to engage in commerce in this country and around the world.

Engaging freely in commerce requires markets that are open and competitive. One of the benefits of open markets is that they spur economic growth by allowing scarce resources to be put to their highest-value uses. Bananas, for instance, are a scarce resource. It would be theoretically possible for the U.S. to prohibit the importation of bananas and instead produce them here in greenhouses.

However, this would result in very poor use of resources, as well as quite expensive bananas. It is far better for the U.S. not to control the market for bananas, but rather allow them to be imported from tropical countries where they can be grown in abundance at low cost.

A market-oriented candidate would explain that the same concept also applies to all other imported products. He or she would emphasize that policies to restrict imports have the effect of reducing the country's economic welfare. If goods of acceptable quality from another country

can be sold in the U.S. at lower costs than domestically produced goods, Americans likely will be happy to buy those imports.

If U.S. output of the product falls in response to imports, marketplace pressures will prompt resources to be redeployed into other activities. The economy actually does this all the time. People often change jobs to earn more money, which reflects the reality that the market values their skills more highly in some activities than in others.

Some voices claim that keeping the border open to imports will lead to a decline in U.S. manufacturing. It certainly hasn't so far. U.S. industry set an all-time record for value added in manufacturing in 2015 of \$2.4 trillion. Half of all imports are used as inputs by American manufacturers. So instead of undermining the manufacturing economy, imports have helped it to remain competitive and to grow.

It is important to recognize that factory employment in this country has trended downward over time. The number of manufacturing workers peaked in 1979 at 19.4 million and now is around 12 million.

Some candidates have argued that the decline in the number of manufacturing workers has been caused primarily by globalization. A 2015 analysis done by the Center for Business and Economic Research at Ball State University found that trade has, indeed, had a modest effect on manufacturing employment. The study found that roughly 13% of manufacturing job losses has been due to international competition.

The other 87% of the decline, though, has come from greater automation — robots and computers are reducing the number of workers required on factory floors. The productivity gains that allow manufacturing employees to generate so much more output than in the past should be celebrated, not criticized!

A candidate who supports engagement with the international economy should acknowledge that globalization has had the effect of shifting the composition of manufacturing output. Compared with past years, the U.S. produces fewer low-skilled products such as shirts and tennis shoes. Those reductions have been more than offset by increased production of high-value items such as airplanes, motor vehicles and computer software. So there is plenty of good news relating to the U.S. economy, but it largely has been ignored during this particularly unenlightened political campaign.

A reasonable objective of a new president's administration would be to encourage people to increase their skills so that they remain easily employable and upwardly mobile. Overall, U.S. employment continues to grow in a meaningful way. Even though the economic recovery of the past seven years has been slow, it has been sufficient to boost employment by more than 10% to a record level of 152 million.

Finally, a candidate who understands economics must be willing to push back against those who advocate a greater role for government in the economy. Increasing the size of government means reducing the resources available to the private sector. The better approach is to pursue market-oriented policies that encourage more robust economic growth and expanded

international trade. This is the best way to create new opportunities and to raise living standards for people around the country.

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