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# The Detroit News

## Econ 101 for Presidential Candidates

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The protectionist trade policies espoused by Donald Trump and Hillary Clinton, on display once again in this week's presidential debate, demonstrate how little they understand about economics.

Economics is not hard; it's just that key concepts are politically inconvenient. Here's a remedial lesson in the economics of trade.

■ *All resources are scarce; demand and supply determine their value.* Gravel and gold both have limited supplies. A pound of gold has a higher price than a pound of gravel because the supply of gold is scarcer relative to its demand.

■ *Markets are more effective than governments at setting prices.* Adam Smith's "invisible hand" operates through supply and demand to establish prices and allocate resources. In a free marketplace, millions of individuals strive to maximize well-being by producing goods or services, then buying other goods and services that they want. Free trade promotes economic growth by ensuring that scarce resources are put to their highest-value uses. Governments that use trade restrictions to control markets will cause resources to be used less efficiently, thus making their people unnecessarily poorer.

■ *Costs outweigh benefits for a country imposing import restrictions.* Because domestic consumption has included imports, domestic producers have supplied less than 100 percent of consumer demand. An increase in the cost of the restricted product will be paid by all users, but any benefit to domestic producers will only apply to the portion of the marketplace that they serve. Trade restrictions reduce economic welfare.

■ *Comparative advantage still works in the 21st century.* Countries, like individuals, are better at doing some things than others. The concept of comparative advantage explains

that neither individuals or nations should seek self-sufficiency, because not everyone or every country can do everything well. The better approach is for people to specialize in activities at which they are most productive, then trade to obtain other needed goods and services. The United States is better off importing tropical bananas than trying to grow them here in greenhouses.

■ *People deserve the freedom to buy from and sell to whomever they choose.* The United States is a free society with relatively open and competitive markets, which enables people to enjoy the fundamental human right to engage in commerce. Any governmental limitation of that right should only be imposed to serve an essential societal objective, such as preventing the export of sensitive military equipment to enemy nations.

■ *Imports are good.* They help ensure that people benefit from a wide variety of competitively priced items, thus expanding consumer choice and raising living standards. Half of all imports are used as inputs in manufacturing; those imports contribute significantly to the success of the manufacturing sector. Value added to the economy by U.S. manufacturers hit \$2.4 trillion in 2015, its highest level in history. Imports also provide competition for domestic businesses, stimulating innovation and product improvements.

■ *Exports also are good.* They are needed to pay for imports. And, since comparative advantage means that all nations are relatively better at doing some things than others, the United States has an obligation to allow its products and services to be exported so that other people will be able to buy them.

■ *Both imports and exports lead to expanded employment.* They do this indirectly by improving resource allocation and facilitating economic growth.

But what about people who might lose their jobs due to import competition? A recent study by the Center for Business and Economic Research at Ball State University found that 13 percent of manufacturing job losses have been due to trade, but 85 percent of the employment decline has been caused by automation related to robots and computers. Policies that provide adjustment assistance to unemployed workers should be structured in ways that don't restrict trade.

The major party presidential candidates would be well advised to reconsider their trade policy proposals. Protectionism will undermine the freedoms of Americans and lower their standards of living. Bad policy choices mean bad economic outcomes. This is not the way to lead a great nation forward.

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