

The Candidates' Trade Nonsense

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Steve Chapman | November 1, 2012

A national political campaign can be a good vehicle for educating the citizenry about vital issues—whether fiscal balance requires tax increases, say, or the pros and cons of health care reform. By Election Day, Americans who have been paying attention will know more about such matters than they did when the race began.

They will know less, though, about international trade and its value to American consumers, producers and economic health. In this, Mitt Romney and Barack Obama call to mind what the 19th-century House Speaker Thomas Brackett Reed said of his foes: "They never open their mouths without subtracting from the sum of human knowledge."

As economist Daniel Ikenson of the libertarian Cato Institute says, "Both of them came to the conclusion it's easier to demagogue than to explain the benefits of trade."

Romney has run an ad asserting that the president "sold Chrysler to Italians who are going to build Jeeps in China." Like that's a bad thing? Chrysler and its workers were lucky to find a buyer with the means to turn it around, and undertaking production in the world's biggest auto market is smart business.

Romney's implication is that Americans lose when Italians invest in car production here and lose again when a U.S. company invests in car production in China. Not so. We gain employment opportunities when foreigners put money into our economy. We receive income when U.S. companies earn profits abroad.

It's not accurate to suggest, as Romney does, that Chrysler is closing down plants in this country to move production to China. It is actually increasing production from its U.S. Jeep plants. But carmakers generally locate production where the buyers are, which is why so many foreign companies have plants here.

Romney has plenty of help spreading misconceptions. Obama boasts that by acting to "make sure that China was not flooding our domestic market with cheap

tires," his administration "saved a thousand jobs." What he doesn't say is that he forced Americans to pay more for tires.

Saved jobs? His measure did save as many as 1,200 jobs in the tire industry, according to the Peterson Institute for International Economics—but at a cost of at least \$900,000 per job. Does it make sense to spend \$900,000 to save a job that pays, on average, \$40,000 a year?

But that's not the full extent of Obama's feat. IIE says that since they had to spend more on tires, consumers had less to spend on other things. Overall, the tariff destroyed twice as many jobs as it saved.

Both candidates indulge the superstition that while exports are good, imports and outsourcing are bad. In reality, it makes no sense to make something at home if we can buy it cheaper from elsewhere. The point of producing is to allow consumption. Raising the cost of consumer goods by shutting out imports makes us poorer, not richer.

Outsourcing is a competitive necessity in a global economy. If a U.S. firm can't compete with companies producing in Mexico or China, it's wiser to relocate its factories abroad than to go on losing money here.

The assumption promoted by Obama and Romney is that unless we act against the Chinese, our manufacturers will be unable to compete. In fact, the value of American manufactured goods, adjusted for inflation, has risen by 10 percent over the past decade.

That's easy to forget because the number of jobs has shrunk—a consequence of rising productivity, which allows companies to do more with less. Another reason it's easy to forget is that Chinese output has grown. But as of 2010, the World Bank says, the U.S. remains the world's biggest manufacturer. And we are far better off with China exporting manufactures than exporting virtually nothing, as was the case a generation ago.

If there is any good news about the candidates, it's that their policies will most likely be better than their rhetoric. Aside from tires, Obama has generally avoided protectionism, while signing free-trade deals with South Korea, Panama and Colombia.

Romney will hear from plenty of Republican CEOs who favor freer trade. Few experts believe he will keep his pledge to label China a currency manipulator, setting off a trade war. Obama, after all, slammed President George W. Bush for failing to do so—but followed suit.

Usually, we yearn to believe that presidential candidates are telling the truth. When it comes to trade, we can hope they're lying.

