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The Great Trade Debate: Daniel Griswold - Main Street America Benefits from Global Engagement

Main Street America Benefits from Global Engagement

By Daniel Griswold

Americans are better off today because of our greater freedom to trade and work with people around the world. Our growing engagement in the world economy has delivered real benefits to Main Street Americans.

Competition from trade has blessed American families with lower prices, more choice, and better quality when we spend our paychecks. Because of trade, consumers pay lower prices for food, clothing, shoes, electronics, and cars, which translate directly into higher real incomes. The cars we drive today are safer and more fuel efficient because of import competition. The bargains that trade has delivered have done more to help struggling families make ends meet than any “stimulus” bill from Washington.

Trade has created better jobs for millions of Americans. Jobs connected to trade and foreign investment typically pay 15 to 30 percent more than average. Two-thirds of the net new jobs created in the past two decades have been in predominantly service sectors where average wages are higher than in manufacturing. Despite the recent recession, real median household income is still \$4,000 higher than it was in 1993, and real compensation per hour (wages and benefits) is 23 percent higher.

Trade has allowed U.S. manufacturers to move up the “value ladder” by specializing in higher-end products that play to our strengths. Real output at U.S. factories is 37 percent higher than it was in 1993, the year before NAFTA was enacted. In 2007, American workers on American soil produced 5,000 civilian aircraft, 15,000 aircraft engines, 10 million motor vehicles, 25 million computers, 44 million heavy appliances, millions of tons of chemicals, and billions of semiconductors. American producers lead the world in such advanced products as medical equipment and pharmaceuticals.

America remains the world’s top manufacturing nation based on total value-added (domestic output less imports). We are producing more manufactured products with fewer workers because Americans have become so much more productive per hour worked. Rising productivity is the essence of competitiveness and the foundation for higher living standards.

America’s trade deficit is not a scorecard of trade policy. It reflects a continuing net inflow of foreign investment to the United States. That investment keeps long-term interest rates down, saving a typical homeowner \$1,000 a year in mortgage payments. Foreign-owned affiliates in the United States employ more than 5 million American workers in well-paying jobs, including one out of eight manufacturing workers.

We cannot hope to prosper behind tariff walls. Three-quarters of the world’s spending power lies beyond our borders. U.S. companies and their workers cannot prosper in the long run without tapping into global markets. High trade barriers raise the cost of production for U.S. companies that need to import raw materials, supplies, and machinery. They also invite other countries to keep their barriers high to U.S. exports.

We tried protectionism in the 1930s and it was a colossal failure. It only deepened and prolonged the Great Depression and did nothing to reduce high unemployment. After World War II, Democrats and Republicans worked together to

create a more open U.S. and world economy. Our more open era has seen the global poverty rate cut in half since 1981. A rising global middle class and deeper economic ties among nations have promoted not only more demand for U.S.-branded products but also the spread of democracy, human rights, and peace.

American leaders from Franklin Roosevelt to Ronald Reagan and Bill Clinton understood that expanding trade promotes prosperity at home while it enhances American influence abroad. Let us not repeat the mistakes of the past by closing ourselves off from a world of opportunity.

Daniel Griswold is director of the Center for Trade Policy Studies at the Cato Institute, a non-profit, non-partisan think tank in Washington. He is author of the new Cato book, [Mad about Trade: Why Main Street America Should Embrace Globalization](#), available at [Amazon.com](#) and major bookstores. More information about Cato and [Mad about Trade](#) can be found at [freetrade.org](#) and [danielgriswold.com](#). His email is dgriswold@cato.org.

(For the protectionism view, see Ian Fletcher's post [here](#))

Posted by Simon Lester on February 26, 2010 at 03:36 PM | [Permalink](#)

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Dan,

No doubt you are busy drafting your response to Ian, but when you get a chance, I would be very interested to hear your thoughts on the following questions (it may turn out that Ian's response raises some of these points, so you may end up dealing with them in that context):

-- There's an argument that the U.S. was very protectionist during its development era, and thus today's developing countries should emulate that policy rather than sign on to free trade agreements. How would you respond to this?

-- With respect to measures such as foreign subsidies and currency manipulation, it could be argued that even if such measures help U.S. consumers, they lead to an allocation of production that is not based on market principles. As a result, they undermine overall economic welfare, and we would be better off if production decisions were based on the market. How would you recommend that U.S. trade policy respond to such measures?

Thanks,

Simon

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